

POLICY ON RELATED PARTY TRANSACTIONS

Credila Financial Services Limited

(formerly known as HDFC Credila Financial Services Limited)

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

CIN: U67190MH2006PLC159411

Website: www.credila.com

Prepared by :	Compliance & Finance Department
Reviewing Authority:	Audit Committee of the Board of Directors of the Company
Approving Authority:	Board of Directors of the Company
Original Issue Date:	March 30, 2015
First Revision Date:	January 16, 2017
Second Revision Date:	May 10, 2019
Third Revision Date:	October 19, 2020
Current revision Date:	March 30, 2022, Effective April 1, 2022
Version No.:	5.0
Review Cycle	The policy shall be reviewed annually and as and when required.
Last Reviewed by the Board in Annual Review	April 17, 2023

1. **About the Company:**

Credila Financial Services Limited (formerly known as HDFC Credila Financial Services 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.

2. **Scope and Purpose:**

The Companies Act, 2013 (the Act), the rules framed thereunder and the Indian Accounting Standards as well as the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”) contain detailed provisions relating to Related Party Transactions.

This Policy on dealing with Related Party Transactions was framed as per the Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 dated September 01, 2016 and is intended to ensure proper approval and reporting of the concerned transactions between the Company and its Related Parties

Pursuant to the provisions of the Companies (Amendment) Act, 2017, and implementation of Indian Accounting Standards, this Policy had been amended by the Board of Directors of the Company at its meeting held on May 10, 2019.

Thereafter pursuant to amendment in Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019, this Policy has once again been amended by the Board of Directors of the Company at its meeting held on October 19, 2020.

Pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 dated November 9, 2021, this Policy has been amended and approved by the Board of Directors of the Company, based on the recommendation of the Audit Committee, at its meeting held on March 29, 2022.

3. **Interpretations:**

All words and expressions used herein, unless defined herein, shall have the same meaning as respectively assigned to them, in the Applicable Law under reference.

‘**Applicable Law**’ includes (a) the Companies Act, 2013 (the Act) including Companies (Amendment) Act, 2017 and rules made thereunder; (b) the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations); (c) Indian Accounting Standards; and (d) any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.

‘**Material Transaction**’ – A transaction with a related party shall be considered material if the transaction(s) 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 or such sum as may be prescribed under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") and as amended from time to time.

A transaction involving payments made to related party with respect to brand usage or royalty shall be considered material if the transaction to be entered into individually or taken together with previous transactions during a financial year exceed five percent of the annual consolidated turnover of the Company as per the last audited financial statement of the Company.”

‘**Material Modifications**’ shall mean and include all changes to approved related party transactions which have a cumulative effect of exceeding the total transaction value approved for a financial year for each type of related party transaction qua each related party by 10%

4. Terms of the Policy:

All Related Party Transactions will be subject to following approval matrix, as may be applicable:

Provisions	Prior Approval Required		
	Audit Committee	Board of Directors	Shareholders (Ordinary Resolution)
<u>Transactions in the ordinary course of business and on arm's length basis</u>	√	√ 10% or more of the turnover	√* 10% or more of the turnover
Transactions either not in the <u>ordinary course of business</u> or <u>arm's length basis</u>			
Sale, purchase or supply of any goods or materials, directly or through appointment of agent.	√	√	√* 10% or more of the turnover

Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.	√	√	√* 10% or more of the net worth
Leasing of property of any kind.	√	√	√* 10% or more of the turnover
Availing or rendering of any services, directly or through appointment of agent	√	√	√* 10% or more of the turnover
Appointment of any related party to any office or place of profit in the Company,	√	√	√* Monthly remuneration exceeding two and half lakh rupees
Underwriting the subscription of any Securities of the Company	√	√	√* Remuneration exceeding 1% of net worth
<i>Note: * In case of shareholders' approval, related parties shall abstain from voting.</i>			

Notes: Material Modifications to Related Party Transactions will require prior approval of the Audit Committee. Material Modifications to material Related Party Transactions will require prior approval of the Shareholders of the Company. Further, any other modifications to transactions entered into by the Company with its related parties will require the approval of the Audit Committee notwithstanding that such modification is a Material Modification

5. Identification of Related Parties and Related Party Transactions

The Compliance Officer shall:

- i. Identify and keep on record Company's Related Parties, along with their personal/company details.
- ii. obtain, on a quarterly basis, disclosure of related parties from its Directors/ KMP. The list of related parties maintained by the Company would be based on disclosures received by it from Directors/ KMP and other concerned entities/ individuals
- iii. Update the record of Related Parties whenever necessary and shall be reviewed at least once a quarter.
- iv. Ensure that internal systems have been created to ensure that the concerned employees approving the transactions are not related to the contracting parties and alternative approving authorities are put in place.

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

- i. Although the term “Arm’s Length Basis” has been defined under Section 188 of the Companies Act, 2013, what transactions would be considered to be in the “ordinary course of business” has not been specified under the Companies Act, 2013.

Therefore, in order to determine whether a transaction is within the ordinary course of business or not, some of the principles that may be adopted to assess are as follows:

- a. whether the transaction is in line with the usual transactions, customs and practices undertaken by the company to conduct its business operations and activities;
 - b. whether it is permitted by the Memorandum and Articles of Association of the company; and
 - c. whether the transaction is such that it is required to be undertaken in order to conduct the routine or usual transactions of a company.
- ii. Any of the following conditions are met:
 - a. The transaction, including, but not limited to sale or purchase of goods or property, or acquiring or providing of services, conveying or accepting leases, transfer of any resources, hiring of any executives or other staff, providing or availing of any guarantees or collaterals, or receiving or providing any financial assistance, or issue, transfer, acquisition of any securities, is in the normal routine of the Company’s business; or
 - b. The transaction is in the nature of reimbursements, received or provided, from or to any related party, whether with or without any mark-up towards overheads, and is considered to be congenial for collective procurement or use of any facilities, resources, assets or services and subsequent allocation of the costs or revenues thereof to such related party in an appropriate manner; and
 - iii. The transaction is not:
 - a. an 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 to clause (a) of sub-section (1) of section 180 of Companies Act, 2013.
 - c. The Company may 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.
 - d. 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.

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

- i. The following illustrative tests may be used by the Audit Committee for ascertaining arm's length nature of contracts / arrangements that may be entered into by the Company with related parties, or any modification, variation, extension or termination thereof: -
 - a. 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.
 - b. The contracts/ arrangements have been commercially negotiated.
 - c. The pricing is arrived at as per the rule/guidelines that may be issued by or acceptable for the purpose of, Ministry of Corporate Affairs, Government of India, Income Tax Act, 1961, Securities and Exchange Board of India and/or such other statutory or regulatory bodies as applicable to any of the contract/ arrangements contemplated under the Companies Act, 2013, Rules framed thereunder or Listing Regulations.
 - d. Such other criteria as may be issued under Applicable Law.
- ii. 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
- iii. The Audit Committee shall be entitled to rely on professional opinion or representation from the counter party in this regard.

8. Procedure for approval and review of Related Party Transactions

1. Procedure for approval and review of Related Party Transactions

(a) Approval of Audit Committee:

- i. All Related Party Transactions and Material Modifications thereto require the prior approval of the Audit Committee in accordance with the approval matrix mentioned in this Policy, provided however, any other modifications to transactions entered into by the Company with its related parties will require the approval of the Audit Committee notwithstanding that such modification

is a Material Modification.

- i. All relevant facts pertaining to a Related Party Transaction, including but not limited to, name of the related party, nature of relationship and value of transaction, shall be placed before the Audit Committee along with such other details as prescribed under Applicable Law from time to time or otherwise relevant or important for the Audit Committee to take a decision on the proposed Related Party Transaction.
- ii. Audit Committee shall be entitled to call for such additional information/ documents in order to understand the scope of the proposed Related Party Transaction(s) and recommend an effective control system for the verification of the supporting documents.
- iv. In determining whether approval can be accorded to a Related Party Transaction, the Audit Committee may consider the following and any other relevant factors as prescribed under Applicable Laws from time to time:
 1. whether the Related Party Transaction is in the ordinary course of business of the Company
 2. whether the terms of the Related Party Transaction are on arm's length basis;
 3. whether there are any adequate reasons of business expediency for the Company to enter into the Related Party Transaction, after comparing alternatives available, if any;
 4. whether there is any potential reputational/ regulatory risk that may arise as a result of or in connection with the proposed Related Party Transaction; and
 5. whether the Related Party Transaction would affect the independence or present an improper 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 Related Party, the direct or indirect nature of interest of the Related Party in the transaction and such other factors as the Audit Committee deems relevant.
- v. If the Audit Committee determines that a Related Party Transaction should be brought before the Board of Directors, or if the Board in any case chooses to review any such matter or it is mandatory under any Applicable Law or required under this Policy for Board to approve the Related Party Transaction, then the Board shall consider and approve the Related Party Transaction and the considerations set forth above shall apply to the Board's review and approval of the Related Party Transaction, with such modification as may be considered necessary or appropriate by the Board under the circumstances.
- vi. In case a Related Party Transaction or subsequent modification that has been commenced without the required prior approval, the Audit Committee or Board or the shareholders, as appropriate, may ratify the transaction or modification if permitted under Applicable Law and/or take direct actions including, but not limited to, rendering such Related Party Transaction voidable, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification if permitted under Applicable Law. It shall be open to the Company to proceed against its director or any other employee who had entered into such Related Party Transaction in contravention with Applicable Laws.
- vi. No member of the Audit Committee/ Board shall participate in the review or approval of any Related Party Transaction in which such member is interested.

- vii. The Audit Committee may grant an omnibus approval for related party transactions which shall be valid for a period of 1 year. The conditions for according omnibus approvals will be as follows:
1. The Related Party Transactions are repetitive in nature or foreseeable and are in the interest of the Company;
 2. The Related Party Transactions under the omnibus approval route shall be reported to the Audit Committee on a quarterly basis for its noting.
 3. Where the need for Related Party Transactions cannot be foreseen and the details thereof are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction per related party. Such transactions shall also be reported to the Audit Committee on a quarterly basis for its noting.
- ix. Notwithstanding the generality of foregoing, Audit Committee shall not grant omnibus approval for following transactions:
1. Transactions which are not in ordinary course of business or not on arm's length and covered under Section 188(1) of the Companies Act;
 2. Transactions in respect of selling or disposal of an undertaking of the Company;
 3. Transactions which are not in the interest of the Company;
 4. Such other transactions specified under Applicable Law from time to time.
- x. Exceptions stipulated under Applicable Laws for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit Committee/ Board of Directors of the Company decide otherwise.
- (b) Approval of Shareholders:
- i. All material Related Party Transactions and Material Modifications thereto require the prior approval of the Shareholders of the Company in accordance with this Policy and Applicable Laws.
 - ii. The Audit Committee and Board of Directors of the Company shall approve all material Related Party Transactions before recommending the same for approval of the Shareholders.
 - iii. None of the related parties of the Company, whether or not such related party(ies) is a party to the Related Party Transactions, shall vote to approve material Related Party Transactions, unless permitted under Applicable Law.

Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy and in case of conflict between the provisions of Applicable Law and this Policy, the provisions of Applicable Law shall prevail.

9. Disclosures

As mandated under the Listing Regulations, the Company shall disclose this Policy on its website i.e. www.credila.com and in the Annual Report. Disclosures regarding related party transactions will be made in accordance with the Applicable Laws.

10. Policy Review

This Policy shall be reviewed annually and may be amended, modified or supplemented from time to time to ensure compliance with any modification, amendment or supplementation to the Listing Regulations or as may be otherwise prescribed by the Audit Committee/ Board from time to time.