



# Policy on Materiality of related party transactions and dealing with Related Party Transactions



## BACKGROUND

The Companies Act, 2013 was enacted on August 30, 2013 which provides major overhaul in the Corporate Governance norms for all Companies. The set of rules under Companies Act, 2013 pertaining to Corporate Governance were notified on March 27, 2014. The requirements under the Companies Act, 2013 and the rules notified there under would be applicable for such company or a class of companies (both listed and unlisted) as may be provided therein. The listed companies, in addition to the Companies Act, 2013 are required to comply with the provisions of the SEBI Equity Listing Agreement ('SEBI ELA').

Section 188 of the Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 provides the detailed mechanism for dealing with Related Parties Transactions of the Company. Further, it provides for certain compliance requirements such as Audit Committee approval, Board approval and Shareholder's approval in specific circumstances.

SEBI has amended the Clause 49 of the Listing Agreement which is effective from 1<sup>st</sup> October 2014. The revised clause in addition to the approvals required for Related Party Transactions also provides that the company shall formulate a policy on materiality of related party transactions and also on dealing with related party transactions.

Keeping in view the above mentioned compliance requirements provided in Companies Act, 2013 read with related rules issued thereon and revised Clause 49 of the listing Agreement including any amendment thereof, the Board of Directors of Engineers India Limited ("EIL"), acting upon the recommendations of the Audit Committee of the Company, has approved and adopted the following policy and procedure with regard to Materiality of Related Party Transactions and dealing with Related Party Transactions of the Company. The Audit Committee will review and may amend this policy as may be required from time to time in accordance with the provisions of the Companies Act, 2013, Rules, SEBI ELA, and any further amendments and notifications as may be made effective in this regard.

All Related Party Transactions as defined in this Policy shall be subject to review in accordance with the procedures set forth below.

## PURPOSE

This Policy is intended to ensure the approval mechanism and reporting of transactions between the Company and its related parties as defined in the Policy. In accordance with the Companies Act, 2013 and SEBI ELA. It may be modified pursuant to the Amendments in the Companies Act, Rules or SEBI ELA.

## DEFINITIONS

1. **“Government Company”** - In accordance with Section 2 (45) of the Companies Act, 2013 read with related rules issued thereon, Government Company means any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company;
2. **Related Party**- In accordance with Section 2 (76) of the Companies Act, 2013 read with related rules issued thereon and Clause 49 of SEBI Listing Agreement including any statutory

modification, amendment thereof as may issue from time to time, an entity shall be considered as related party to the Company if:

- (a) Such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- (b) Such entity is a related party under the applicable Accounting Standards.\*

\* Rule 7 of Companies (Accounts) Rules 2014 provides that the standards of accounting as specified under the Companies Act, 1956 (1 of 1956) shall be deemed to be the accounting standards until accounting standards are specified by the Central Government under section 133 of the Companies Act 2013. Accordingly, AS 18 is the Accounting Standard applicable for Related Party Transactions

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 two per cent. 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:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

- (viii) 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;
- (ix) A Director (other than Independent Director) or Key Managerial Personnel (KMP) of the holding company of such company or his relative.

The Accounting Standard 18 defines related party as “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.”

The Accounting Standard 18 deals only with related party relationships described below:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;

- (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- (d) key management personnel and relatives of such personnel; and
- (e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

In the context of this Standard, the following are deemed not to be related parties:

- two companies simply because they have a director in common notwithstanding para 3 (d) or 3 (e) above.
  - a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence; and
  - the parties listed below, in the course of their normal dealings with an enterprise by virtue only of those dealings
- (i) Providers of finance; (ii) Trade unions; (iii) Public utilities; (iv) Government departments and government agencies including government sponsored bodies

No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises.

State-controlled enterprise means an enterprise which is under the control of the Central Government and/or any State Government(s).

- 3. Related Party Transactions (RPT) -** In accordance with Revised Clause 49, related party transaction is a transfer of resources, services or obligations between a Company and a related party, regardless of whether a price is charged or not.

Explanation: A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract."

In accordance with Companies Act, 2013, Related Party Transaction includes the following transactions between the related parties:

- sale, purchase or supply of any goods or materials;
- selling or otherwise disposing of, or buying, property of any kind;
- leasing of property of any kind;
- availing or rendering of any services;
- appointment of any agent for purchase or sale of goods, materials, services or property;
- such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- Underwriting the subscription of any securities or derivatives thereof, of the company.



4. **Material Related Party Transactions** –In accordance with Revised Clause 49, in case any related party transaction / transactions, to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the company and in accordance with Section 188 of the Companies Act, 2013 read with related rules issued thereon including any statutory modification, amendment thereof as may issue from time to time the specified transactions as mentioned below:

Transactions covered	Transaction value
sale, purchase or supply of any goods or materials directly or through appointment of agents *	> 10% of Turnover or Rs. 100 Crore, whichever is lower
selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents *	> 10% of Net Worth or Rs. 100 Crore, whichever is lower.
leasing of property of any kind*	> 10% of Turnover or Net Worth or Rs. 100 Crore, whichever is lower.
availing or rendering of any services directly or through appointment of agents *	> 10% of Turnover or Rs. 50 Crore, whichever is lower.
such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company	monthly remuneration > Rs. 2.5 Lakh
Remuneration for underwriting the subscription of any securities or derivatives thereof, of the company*	> 1% of Net Worth

\* The limits shall apply for these transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year

5. **Relatives:** In accordance with Section 2 (77) of the Companies Act, 2013 relative means anyone who is related to another, if—

- (i) They are members of a Hindu Undivided Family;
- (ii) They are husband and wife; or
- (c) A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-
  - (a) Father: Provided that the term “Father” includes step-father.
  - (b) Mother: Provided that the term “Mother” includes the step-mother.
  - (c) Son: Provided that the term “Son” includes the step-son.
  - (d) Son’s wife.
  - (e) Daughter.
  - (f) Daughter’s husband.
  - (g) Brother: Provided that the term “Brother” includes the step-brother;
  - (h) Sister: Provided that the term “Sister” includes the step-sister;

6. **Key Managerial Personnel's (KMPs)** – in relation to a company, means (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 under Companies Act, 2013
7. **Subsidiary Company** - The terms Subsidiary Company shall have the same meaning as specified under Companies Act, 2013 read with related rules issued thereon including any statutory modification and amendment thereof as may be issued from time to time

## PROCEDURE AND POLICY

### ROLE AND RESPONSIBILITIES OF AUDIT COMMITTEE

1. The Audit Committee of the Company constituted in accordance with the provisions of the Companies Act, 2013 shall review and ratify all Related Party Transactions existing on the date of this Policy or proposed to be entered into by the Company. As per Clause 49 of the listing Agreement and Section 177 of the Companies Act, 2013, Audit Committee shall accord prior approval to all proposed Related Party Transactions, subject to the following:
  - A. **Omnibus Audit Committee approval** – In terms of revise Clause 49, Audit Committee may grant omnibus approval for Related Party Transactions provided it is satisfied that there is a need to grant such approval is in the interest of the Company. Such approval may be granted by Audit Committee for the proposed transactions subject to the following:
    1. Transactions are repetitive in nature;
    2. Transactions are conducted at Arm's length basis;
    3. Transactions are in the ordinary course of business
    4. Transactions are frequent in nature;
    5. Sufficient disclosure shall be made to the Audit Committee, including the following:
      - name/s of the related party,
      - nature of transaction
      - period of transaction
      - maximum amount of transaction that can be entered into
      - the indicative base price / current contracted price and the formula for variation in the price if any and
      - such other conditions as the Audit Committee may deem fit.
    6. Board shall take note of the minutes of the Audit Committee.
    7. In case any of such transaction considered to be material transaction, audit committee shall immediately report to the Board of Directors and in case necessary recommend to the Board for necessary approvals from Shareholders of the Company ;

In case, the above details are not available or need for Related Party Transaction cannot be foreseen, Audit Committee may consider to grant omnibus approval for any transaction or transactions, subject to the maximum value of Rs.1 crore per transaction.

In case such transaction exceed the threshold limit of Rs. 1 cr and Company propose to continue the omnibus approval of the Audit Committee for said transaction, in such scenario to continue the said transaction the Company is required to give the necessary disclosures/ information as mentioned in Para A before the Audit Committee and Audit Committee shall evaluate such transaction in light of the such criteria's for Omnibus approval of Audit Committee.

In terms of Clause 49 of the listing agreement, 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. Further, such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

B. **Exemptions from Audit Committee approval** - In terms of Clause 49 of the Listing Agreement, following transactions are exempted from the requirement of obtaining the Audit Committee approval. However, approval of Audit Committee will be required as per Section 177 of the Companies Act, 2013:

- i) Transactions entered into by Engineers India Limited with other government companies;
- ii) Transactions entered into between Engineers India Limited and its wholly owned subsidiary whose accounts are consolidated with Engineers India Limited.

C. **Details to be provided to the Audit Committee** - With respect to Related Party Transactions requiring approval of the Audit Committee, the following information, to the extent relevant, shall be presented to the Audit Committee:

- A general description of the transaction(s), including the material terms and conditions.
- The name of the Related Party and the basis on which such person or entity is a Related Party.
- Name of director or KMP who is related.
- Period of transaction
- Maximum amount of transaction that can be entered into
- The Related Party's interest in the transaction(s), including the Related Party's position or relationship with, or ownership of, any entity that is a party to or has an interest in the transaction(s).
- The indicative base price / current contracted price and the formula for variation in the price if any
- Any other material information regarding the transaction(s) or the Related Party's interest in the transaction(s).

D. **Ordinary Course of business** 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.

- E. **Arm's length transactions** - The Audit Committee shall consider the following, while determining the transaction on arm's length basis:
- “The transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest”
- F. Each director/KMP who is a Related Party with respect to a particular Related Party Transaction shall disclose all material information to the Audit Committee/Board of Directors concerning such Related Party Transaction and his or her interest in such transaction.
- G. The Audit Committee shall also review and approve any modification, renewal or extension of any Related Party Transaction.
- H. The Audit Committee shall periodically review this Policy and may recommend amendments to this Policy to the Board from time to time as it deems appropriate.
- I. This Policy is intended to augment and work in conjunction with other Company policies having any code of conduct, code of ethics and/or conflict of interest provisions.

#### **APPROVAL OF BOARD OF DIRECTORS AND SHAREHOLDERS**

2. In accordance with Section 188 of the Companies Act, 2013 and revised clause 49 of listing agreement, the **Board of Directors and shareholders of the Company** shall accord prior approval for related party transactions, subject to the following:
- A. **Board of Director's and Shareholders approval in terms of Companies Act, 2013** – All Related Party Transactions which are either not on arm's length basis or not in the Ordinary Course of Business shall be recommended by the Audit Committee for the approval of the Board of Directors. The Board of Directors shall further recommend the same for the approval of the Shareholders by way of special resolution of the Company, in case the said transactions exceed the value of transactions as provided under Section 188 of the Companies Act, 2013, as given in para 4 of 'DEFINITIONS' contained in this policy.
- B. **Board of Director's and Shareholders approval in terms of Listing Agreement** - In terms of Clause 49 of the Listing Agreement, all material Related Party Transaction shall be recommended by the Board of Directors to the shareholders for their approval by way of special resolution.
- All entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.
- C. **Exemption from Shareholder's approval** - In terms of Clause 49 of the Listing Agreement, following transactions are exempted from the requirement of obtaining the Shareholders approval, however approval of Shareholders will be required as per Section 188 of the Companies Act, 2013:
- i) Transactions entered into by Engineers India Limited with other government companies;

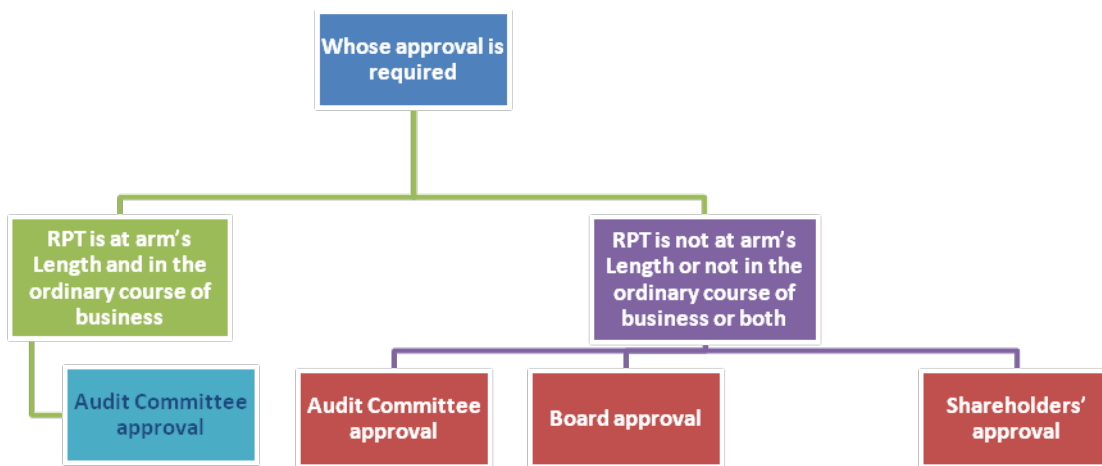


- ii) Transactions entered into between Engineers India Limited and its wholly owned subsidiary whose accounts are consolidated with Engineers India Limited.

**OTHER KEY ASPECTS**

- D. All existing material related party contracts or arrangements as on the date of SEBI circular i.e. 17<sup>th</sup> April 2014 which are likely to continue beyond 31<sup>st</sup> March 2015 shall be placed for approval of the shareholders in the first General Meeting subsequent to 01<sup>st</sup> October 2014.
- E. In accordance with Section 188 of the Companies Act, 2013 read with related rules issued thereon, in case of wholly owned subsidiary, the special resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between wholly owned subsidiary and holding company.
- F. Contracts entered into by companies in compliance with Section 297 of Companies Act, 1956 till March 31, 2014 shall not require fresh approval under Section 188 of the Companies Act, 2013 unless any modification to such contracts is made on or after April 1, 2014.

**AUDIT COMMITTEE/BOARD/SHAREHOLDER APPROVAL MECHANISM FOR ENTERING INTO RELATED PARTY TRANSACTIONS**



**RATIFICATION OF THE RELATED PARTY TRANSACTIONS**

Where any contract or arrangement, which is considered as a related party transaction exclusively as per Companies Act, 2013, is entered into by a director or any other employee, without obtaining the consent of Audit Committee or the Board or the shareholders of the Company, such transaction shall be ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into.

In case such transaction is not ratified within the specified period, such contract or arrangement shall be voidable at the option of the Board 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.

#### **RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY**

In the event the Management of the company becomes aware of any Related Party Transactions that has not been approved under this policy, prior to its consummation, the matter shall be reviewed by the Audit Committee. Audit Committee may consider all of the relevant facts and circumstances regarding the Related Party Transactions and may evaluate all the options available with the Company.

Audit Committee may also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy and may take any such action it deems appropriate.

#### **DISCLOSURE**

Every Contract or arrangement entered with Related Parties to which Sub section (1) of Section 188 of the Companies Act 2013 is applicable shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangements. The disclosures required in terms of Companies Act, 2013 and SEBI ELA are annexed as ***Annexure I*** to this Policy.

Details of all Material Related Party Transactions shall be disclosed quarterly along with the compliance report on corporate governance.

The company shall disclose this policy on its website and a web link thereto shall be provided in the Annual Report.

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Related Party Disclosures							
S.No	Transaction	Regulations	Section/Clause	Disclosures to be made	Time-Frame	Format	Remarks
1	Disclosure of Related Party transactions in terms of AS-18 in Annual Report of the Company	Listing Agreement	32	In Annual Report	Every Year		As per the Accounting Standards -18 no disclosures is required in the Financial statements of state controlled enterprise as regards related party relationship with other state controlled enterprises and transaction with such enterprises. It is imperative to note that Rule 7 of Companies (Accounts) Rules 2014 stipulates that the standards of accounting as specified under the Companies Act, 1956 (1 of 1956) shall be deemed to be the accounting standards until accounting standards are specified by the Central Government under Section 133. Accordingly, till the time new AS are specified by Central Government, earlier AS will be adhered to and exemption will continue to be available.
2	Disclosure of loans /advances and investments in its own shares by the listed companies, their subsidiaries, associates etc. in Annual Report of the Company	Listing Agreement	32	In the Accounts of:- 1. Parent Company:- Loans and advances in the nature of loans to subsidiaries by name and amount -Loans and advances in the nature of loans to associates by name and amount -Loans and advances in the nature of loans where there is no repayment schedule or repayment beyond seven years or no interest or interest below section 372A of Companies Act by name and amount -loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount 2. Subsidiary:- Same disclosures as applicable to the parent company in the accounts of subsidiary company. 3. Parent Company:- Investments by the loanee in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan.	Every Year		1. "parent" and "subsidiary" shall have the same meaning as defined in the "Accounting Standard on Consolidated Financial Statement (AS-21) 2. Section 372A of Companies Act, 1956 has been replaced by Section 186 of the Companies Act, 2013
3	Details of all material transactions with related parties shall be disclosed quarterly along with the compliance report on corporate governance	Listing Agreement	49(VIII)(A)	In Compliance Report on Corporate Governance	Every Quarter		1. A 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. 2. Shall be filed with Stock Exchanges within 15 days of closure of respective quarters alongwith a certificate from either a CA or a CS in practice
4	The company shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report.	Listing Agreement	49(VIII)(A)	On website and web link thereto in the Annual Report	On Continuing basis w.e.f 1st October, 2014		

5	All pecuniary relationship or transactions of the non-executive directors vis-à-vis the company shall be disclosed in the Annual Report	Listing Agreement	49(VIII)(C)	In Annual Report	Every Year		
6	Disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report	Listing Agreement	49(VIII)(C)	In Annual Report: a. All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension etc. b. Details of fixed component and performance linked incentives, along with the performance criteria. c. Service contracts, notice period, severance fees. d. Stock option details, if any - and whether issued at a discount as well as the period over which accrued and over which exercisable.	Every Year		
7	The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company's website and reference drawn thereto in the annual report	Listing Agreement	49(VIII)(C)	In Annual Report or reference at Website to Annual Report	Every Year		
8	The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report	Listing Agreement	49(VIII)(C)	In Annual Report	Every Year		
9	Non-executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director	Listing Agreement	49(VIII)(C)	Notice of General Meeting for appointment of Non-executive Director	Event based		
10	Disclosure of relationships between directors inter-se shall be made in the Annual Report, notice of appointment of a director, prospectus and letter of offer for issuances and any related filings made to the stock exchanges where the company is listed	Listing Agreement	49(VIII)(E)	Notice of appointment of Director, Prospectus, letter of offer	Event based		
11	Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large in the annual report of the company	Listing Agreement	Annexure XII	Annual Report	Every year		
12	The Board Report shall contain particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 of Companies Act, 2013	Companies Act	134	Board Report	Every Year	Form AOC-2	
13	Notice of Board Meeting and General Meeting for appointment/re-appointment of MFD/WTD/Manager shall disclose the terms of appointment and remuneration of the MD/WTD/Manager	Companies Act	196	Notice of Board meeting/General meeting	Event based		

14	Every Listed company shall make such disclosures in its Board Report regarding remuneration of Directors as may be prescribed	Companies Act	197 Disclosure in Board report' - the ratio of the remuneration of each director to the median employee's remuneration; - the percentage increase in remuneration of each director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year; - comparison of the remuneration of the Key Managerial Personnel against the performance of the company; - average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration; - comparison of the each remuneration of the Key Managerial Personnel against the performance of the company; - the key parameters for any variable component of remuneration availed by the directors; - the ratio of the remuneration of the highest paid director to that of the employees who are not directors but receive remuneration in excess of the highest paid director during the year; - affirmation that the remuneration is as per the remuneration policy of the company	Every year		
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