

Poonawalla Fincorp Limited

(Formerly, Magma Fincorp 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

POONAWALLA FINCORP LIMITED
POLICY ON RELATED PARTY TRANSACTIONS

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The Board of Directors (the “Board”) of Poonawalla Fincorp Limited (Formerly, Magma Fincorp Limited) (the “Company”) had originally adopted this Policy on Related Party Transactions (“Policy”) as required in terms of the erstwhile Listing Agreement in its meeting held on 6 November 2014. 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 amendment thereto as well as Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and amendment thereto (“LODR Regulations”), contains detailed provisions on Related Party Transactions.

This Policy has been framed to align with the requirements of the Act and LODR Regulations and is intended to ensure proper approval and reporting of the concerned transactions between the Company and its Related Parties.

The Board recognizes that certain transactions present a heightened risk of conflicts of interest or the perception thereof. Therefore, any dealing 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 by law and as per the applicable policies of the Company. Therefore, pursuant to the provisions of Regulation 23(1) of LODR Regulations, the Board has adopted this Policy to ensure that all transactions with Related Parties shall be subject to this policy and approval or ratification are in accordance with Applicable Law. This Policy contains the policies and procedures governing the review, determination of materiality, approval and reporting of such Related Party Transactions.

DEFINITIONS

1. **“Applicable Law”** means the Act and the rules made thereunder and amendment thereto, the LODR Regulations, 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.
2. **“Associates”** mean any entity which is an associate under sub-section (6) of section 2 of the Actor under the applicable accounting standards.

3. **“Audit Committee”** means a committee formed under section 177 of the Act read with Regulation 18 of the LODR Regulations.
4. **“Compliance Officer”** means the Company Secretary of the Company or such Compliance Officer identified by the Board for the purpose of LODR Regulations.
5. **“Holding company”** means a holding company as defined in sub-section (46) of section 2 of the Act.
6. **“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 officer as may be prescribed.
7. **“Material Related Party Transactions”** means such Related Party Transaction(s) where the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds Rs. 1000 crores or 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower, or for transactions mentioned under section 188(1) of the Act, exceed the limits specified in Rule 15 of the Companies (Meeting of the Board and its Powers) Rules, 2014.

Further, 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 **five percent** of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

8. **“Material modifications”** shall mean any modification made in the terms and conditions of any ongoing or proposed Related Party Transaction, as originally approved by the Audit Committee and/or shareholders, as the case may be, having a significant impact on the nature, value, tenure, exposure, or likely financial impact of such transaction, as may be determined by the Audit Committee from time to time.

Provided that there shall be a rebuttable presumption that a modification is material, if such modification, together with previous modifications during a financial year, results into any of the following-

- A variation in the value of the transaction/contract as originally approved, by 25%, or more.
- The terms of the contract cease to be arms' length.

- Granting of any waiver, abatement or any other relief to either party, which results into a financial implication equal to 25% or more of the value of the contract.
- Extension of tenure of the contract by 25% or more of the original tenure, or continuation of the contract or arrangement beyond the tenure originally agreed upon, except for completion of any residual performances.
- Any modification which results into the claims of either party being subordinated, or relaxation of security interest:
 - Provided that giving any consent for cessation of pari passu charge or any other security interest, provided there is adequate asset cover, shall not be deemed as modification of contract
- Any novation of the contract or arrangement to a third party.

Provided further that the following shall not be considered as material modification -

- modifications which may be mandated pursuant to change in law,
- modifications pursuant to and in accordance with the terms of the approved transaction/contract, whether with or without mutual consent of parties, as the case may be,
- modifications resulting from change in constitution of either of the parties pursuant to schemes of arrangement (e.g. merger, amalgamation, demerger, etc.),
- modifications which are purely technical and do not result in substantive change or alteration of rights, interests, and obligations of any of the parties,
- modifications uniformly affected for similar transactions with unrelated parties

9. **“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.

10. **“Related Party”** means any person who is

- i. a related party under Section 2(76) of the Act read with rules issued thereunder and LODR Regulations;
- 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; or
- 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
 - (i) 20% or more with effect from 1st April, 2022; or
 - (ii) 10% or more, with effect from April 1, 2023

11. **“Related Party Transaction”** means a transaction involving a transfer of resources, services or obligations between:

- (i) a 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
- (ii) a 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 shall include the following:

- i. purchases or sales of goods (finished or unfinished);
- ii. purchases or sales of property and other assets;
- 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 property;
- vi. appointment 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

Notwithstanding the foregoing, the following shall not be deemed to be a Related Party Transactions for the purpose of including the same in the approval process under Applicable Laws:

- 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 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 –
 - i. payment of dividend;
 - ii. subdivision or consolidation of securities;
 - iii. issuance of securities by way of a rights issue or a bonus issue; and
 - iv. buy-back of securities.
- iii. The issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
- iv. Acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the SEBI.
- v. Any other exception which is not inconsistent with the Applicable Laws, including any rules or regulations made thereunder.

12. **“Subsidiary”** means a subsidiary as defined under sub-section (87) of section 2 of the Act.

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

POLICY STATEMENT

A. Procedures for review and approval of Related Party Transactions

- a. All Related Party Transactions or changes therein must be reported to the Compliance Officer and shall be referred for prior 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. Further, any material modification as defined hereinabove shall require prior approval of the Audit Committee.
- b. A Related Party Transaction to which the Subsidiary of the Company is a party, but the Company is not a party, shall require prior approval of the Audit Committee of the Company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds 10% of the annual consolidated turnover, as per the last audited financial statements of the Company;

With effect from April 1, 2023, a Related Party Transaction to which the Subsidiary of the Company is a party, but the Company is not a party, shall require prior approval of the Audit Committee of the Company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the Subsidiary;

Prior approval of the Audit Committee of the Company shall not be required for a Related Party Transaction to which the listed Subsidiary is a party, but the Company is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of the LODR Regulations are applicable to such listed Subsidiary.

- c. All Material Related Party Transactions and subsequent material modifications as defined by the Audit Committee and included in this Policy, shall require prior approval of the shareholders through resolution and no Related Party shall vote to approve such resolutions whether the Related Party is a Related Party to the particular transaction or not.
- d. 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), the Audit Committee may recommend the transaction for approval of the Board.

- e. Related Party Transactions that are not on arm's length basis, irrespective whether those are covered under Section 188 or not, to be placed by the Audit Committee, along with its recommendations, to the Board for appropriate action.
- f. For the ease of carrying out transactions/ contracts/ arrangements, the Audit Committee may grant omnibus approvals to certain transactions based on the following criteria:
 - i. Frequency of the transactions in the last 2 years;
 - ii. 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.
 - iii. Extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval.
- g. Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the business interest of the Company.
- h. 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 variation in the price, if any;
 - vii. such other conditions as the Audit Committee may deem fit;
- i. 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.
- j. Where the Audit Committee has granted omnibus approval for certain transactions, the transactions will be put for review before the Audit Committee quarterly in every financial year.
- k. 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
- l. Audit Committee shall grant Omnibus approval of 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.
- m. Transactions between Holding company and its wholly owned subsidiary will be governed by criteria above unless exempted under the Applicable Law.
- n. 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.
- o. 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. Thereafter, the Board, on at least an annual basis, shall review and assess on-going relationships with the Related Party to ensure that they are in compliance with the Act and rules made thereunder, LODR Regulations and this Policy and that the Related Party Transaction remains appropriate.
- p. 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 Law, the same shall be put up for approval by the shareholders of the Company. The Board shall ensure that the Related Parties shall not vote to approve on any 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
- q. Where, owing to exigencies, Related Party transactions have been entered into without being placed for prior approval by the Audit Committee, reasoned explanation for the same must be received from the contracting employees 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 against the contract employee authorising such transactions without prior approval of the Audit Committee.

- r. 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.
- s. In any case where either the Audit Committee / Board / a general meeting decides not to ratify a Related Party Transaction that has been entered into 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.
- t. 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.
- u. Only those members of the Audit Committee, who are Independent Directors, shall vote to approve Related Party Transactions (effective 1 January 2022) .
- v. Audit Committee / the Board may review any Related Party Transactions involving Independent Directors as part of the annual determination of their independence.
- w. Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy.
- x. 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. The Company shall provide following information to Audit Committee for review and approval of proposed Related Party Transaction:

- a) Type, material terms and particulars of the proposed transaction;

- b) Name of the related party and its relationship with the Company or its subsidiary, including nature of its concern or interest (financial or otherwise);
- c) Tenure of the proposed transaction (particular tenure shall be specified);
- d) Value of the proposed transaction;
- e) The percentage of the Company's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (and for a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided);
- f) If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the Company or its subsidiary:
 - i. details of the source of funds in connection with the proposed transaction;
 - ii. where any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments,
 - nature of indebtedness;
 - cost of funds; and
 - tenure;
 - iii. applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - iv. the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
- g) Justification as to why the RPT is in the interest of the Company;
- h) A copy of the valuation or other external party report, if any such report has been relied upon;
- i) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
- j) Any other information that may be relevant

The Audit Committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.

D. Information to be provided to shareholders for consideration of RPTs

The notice being sent to the shareholders seeking approval for any proposed RPT shall include the following information as a part of the explanatory statement:

- a. A summary of the information provided by the management of the Company to the audit committee as specified in point C above;
- b. Justification for why the proposed transaction is in the interest of the Company;
- c. Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the Company or its subsidiary, the details specified under point C(f) above; (The requirement of disclosing source of funds and cost of funds shall not be applicable to listed banks/NBFCs.)
- d. A statement that the valuation or other external report, if any, relied upon by the Company in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- e. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis;

- f. Any other information that may be relevant.

E. Determination of 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 Companies Act, 2013

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.

F. 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 Law including such prices where the benefits of safe harbour is available under Applicable Law.
- 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

- i. 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.

G. Identification of Potential Related Party Transactions

- a. The Compliance Officer shall:
 - i. Identify and keep on record the Related Parties of the Company and its Subsidiaries, 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 Compliance Officer 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 Compliance Officer may reasonably request. The Compliance Officer 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, as the case may be, of the shareholders 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.

H. Disclosures

- a. The Company shall disclose Related Party Transactions in the Company's Board's Report to shareholders of the Company at the Annual General Meeting.

- b. Disclosures of all Material Related Party Transactions, if any shall be made quarterly along with the Company's Compliance Report on Corporate Governance, in accordance with the LODR Regulations.
- c. The Company shall disclose this Policy on its website and also provide web link to the same in the Annual Report of the Company.
- d. The Company shall keep one or more registers as specified under Applicable Law giving separately the particulars of all contracts or arrangements with any related party.
- e. The Company shall submit within 15 days (or such other timeline prescribed by the SEBI from time to time) from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges in the format prescribed by the SEBI from time to time and publish the same on its website.

With effect from April 1, 2023, disclosure of RPTs to the stock exchanges will be required to be made simultaneously with the release of financial results.

- f. The Company and its subsidiaries in its Annual Report shall disclose Loans and advances in the nature of loans to firms/companies in which Directors are interested by name and amount.

I. Operational Framework

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

REVIEW & AMENDMENTS

This Policy shall be reviewed by the Board of Directors or the Audit Committee of the Board of the Company periodically/Annual or as and when required and updated accordingly. Any changes made in the Policy shall be recorded in the change control record sheet attached with the Policy.

Annexure I

Threshold of Section 188 of the Companies Act, 2013

Sl. No.	Transactions	Threshold Limits
a	Sale, Purchase or Supply of goods/materials directly or through appointment of agent	10% of the turnover
b	Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent	10% of the networth
c	Leasing of property of any kind	10% of the turnover
d	Availing or rendering of any services directly or through appointment of agents	10% of the turnover
e	Relates to appointment to any office or place of profit in the company, its subsidiary company or associate Company	Monthly remuneration exceeding Rs. 2.5 lakh
f	The remuneration for underwriting the subscription of any securities or derivatives thereof of the company	1% of the Networth

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