

Related Party Transactions Policy

POLICY ON RELATED PARTY TRANSACTIONS

1. PREAMBLE

The Board of Directors (the 'Board') of Sudarshan Chemical Industries Limited (the 'Company') has adopted this Policy on Related Party Transactions (the 'Policy'), as required in terms of Section 188 of the Companies Act, 2013 and Clause 49 of the Listing Agreement at its meeting held on 13th February, 2015. The Board or the Audit Committee of the Board ("Audit Committee"), subject to confirmation by Board, may review and amend this policy from time to time.

2. LEGAL FRAMEWORK

2.1 The requirements for approval of related party transactions have been prescribed under the Companies Act, 2013 read with the rules framed there under and Clause 49 of the Listing Agreement as amended by circulars of the Securities and Exchange Board of India ('SEBI') dated April 17, 2014 and September 15, 2014 which is applicable to listed companies with effect from October 1, 2014.

2.2 In view thereof, the Company has formulated guidelines for identification of related parties and the proper conduct and documentation of all related party transactions.

2.3 Clause 49(VII)(C) of the Listing Agreement requires a company to formulate a policy on materiality of related party transactions and dealing with related party transactions.

3. SCOPE AND OBJECTIVE OF THE POLICY

3.1 The Company recognizes that certain transactions present a risk of conflicts of interest, actual or potential which may be against the best interest of the Company. Therefore the Board has adopted this Policy to ensure that all Related Party Transactions with Related Parties shall be subject to this policy and approval or ratification 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.

3.2 The objective of the Policy is to provide for:

- (a) Materiality thresholds for related party transactions;
- (b) Identification of related party transactions;
- (c) Review and approval of related party transactions.

4. DEFINITIONS

4.1 'Applicable Law' means the Companies Act, 2013 and the rules made there under, the Listing Agreement and includes any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.

4.2 'Audit Committee or Committee' means the Committee of the Board constituted from time to time under the provisions of Clause 49 of the Listing Agreement and Section 177 of the Companies Act, 2013.

4.3 'Board' means the Board of Directors as defined under the Companies Act, 2013.

4.4 'Compliance Officer' means the Company Secretary or any other officer of the Company as appointed by the Board to oversee Related Party Transactions, by whatever name called.

4.5 'Key Managerial Personnel' 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

4.6 'Materiality' of a related party transaction shall be determined on the basis of the threshold prescribed by SEBI Circular dated September 15, 2014 or any amendment thereof.

4.7 'Relative(s)' shall have the same meaning as assigned to it under Section 2(77) of the Companies Act, 2013 and the Rules made there under.

4.8 'Related Party' means any person or entity who is:

(i) a related party under Section 2(76) of the Companies Act, 2013 read with rules issued there under;

(ii) a related party under the applicable accounting standards; or

(iii) any other person or entity as may be covered under Applicable Law from time to time.

4.9 'Related Party Transaction' means any transaction with a Related Party involving a transfer of resources or obligations that is subject to the provisions of Applicable Law and shall include the following:

- (i) Purchases, sales or supply of goods (finished or unfinished);
- (ii) Purchases, sales or supply of property and other assets;
- (iii) Rendering or receiving of services;
- (iv) Leasing of property of any kind or hire purchase arrangements;
- (v) Transfers of research and development;
- (vi) Transfers under license agreements;
- (vii) Transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (viii) Provision of guarantees or collateral;
- (ix) Agency arrangements, management contacts including for deputation of employees;
- (x) Deputation of employees;
- (xi) Settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

4.10 Notwithstanding the foregoing, the following shall not be deemed Related Party Transactions:

- (i) Any transaction that involves the providing of compensation to a director or Key Managerial Personnel, in accordance with the provisions of Companies Act, 2013, 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) Reimbursement of expenses incurred by a Related Party for business purpose of the Company.
- (iii) Reimbursement of pre-incorporation expenses incurred by a Related Party as approved by the Board.
- (iv) 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.

(v) Any transaction, which is in the ordinary course of business and on an arm's length basis as determined in terms of this Policy.

(vi) Any other exception which is consistent with the Applicable Laws, including any rules or regulations made there under.

5. GUIDING PRINCIPLES

5.1 Review and Approval of Related Party Transactions -Procedure

(1) Identification of Related Party Transactions

- a. Place all Related Party Transactions, actual or potential, irrespective of them being in the ordinary course of business or at arm's length before the Audit Committee in their first meeting held after April 1, 2014.
- b. Every director or 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.
- c. Where any director or 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.
- d. A contract or arrangement entered into by the company without disclosure or with participation by a director or 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 Company.
- e. Ratification of a Related Party Transaction after its commencement or even its completion may be appropriate in some circumstances, however.
- f. Where a Related Party Transaction has been entered into prior to such transaction being placed before the Committee reasoned explanation for the same must be received from the contracting employees to the satisfaction of the Audit Committee.

(2) Factors for Consideration by the Committee for approval of the proposed transactions or review by Committee or Board, as applicable

While a transaction is placed before the Committee, the Committee shall take into account all relevant facts and circumstances including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party. The Committee shall also examine Permissible methods of Arm's Length pricing as per Applicable Law. For the said purposes the Audit Committee shall be entitled to rely on professional opinion in this regard.

Prior to the approval, the Committee shall, inter alia consider the following factors to the extent relevant to the transaction:

- a. Whether the terms of the Related Party Transaction are in the ordinary course of the Company's business and are on an arm's length basis;
- b. The estimated amount involved in the Related Party Transaction;
- c. The business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- d. Whether the Related Party Transaction includes any potential reputational risks that may arise as a result of or in connection with the proposed Transaction; and
- e. Whether the Related Party Transaction would affect the independence or present a 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, past history and past behavior and reputation of the Director, Key Managerial Personnel or other Related Party, the direct or indirect nature of the Director's interest, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Committee deems relevant;
- f. Permissible methods of Arm's Length pricing as per Applicable Law including such prices where the benefits of safe harbour is available under Applicable Law.
- g. For the said purposes the Audit Committee shall be entitled to rely on professional opinion in this regard.
- h. Any other information as deemed fit by the Audit Committee or Board.

3) Approval by Circular Resolution of the Committee

In the event the management determines that it is impractical or undesirable to wait until a meeting of the Committee to enter into a Related Party Transaction, such transaction may be approved by the Committee by way of circular resolution in accordance with this Policy and statutory provisions for the time being in force. Any such approval must be ratified by the Committee at its next scheduled meeting.

(4) Approval by the Board

If the Audit Committee determines that a Related Party Transaction should be brought before the Board or if the Board in any case elects to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the Board shall consider and in its judgment, approve or disapprove the Related Party Transaction.

(5) Omnibus Approval by the Committee In case of repetitive transactions which are in the ordinary course of business of the Company, the Committee may grant omnibus approval. While granting the approval the Audit Committee shall satisfy itself of the need for the omnibus approval and that the same is in the interest of the Company. The omnibus approval shall specify the following:

- a) Name of the related party;
- b) Nature of the transaction;
- c) Period of the transaction to be specified or not;
- d) Maximum amount of the transactions that can be entered into;
- e) Frequency of the transactions in the last 3 (three) years;
- f) Volumes of transactions undertaken with such Related Party;
- g) Projected growth rate in the business with the Related Party in the financial year for which omnibus approval is sought;
- h) Contractual terms offered by third parties for similar transactions;
- i) Adherence to any conditions on the contractual terms with such Related Parties for instance floor and cap on the pricing, credit terms, escalation in costs, quality checks etc.;
- j) Indicative base price or current contracted price and formula for variation in price, if any;
- k) Such other conditions as the Audit Committee may deem fit.

The details of such transaction shall be reported at the next meeting of the Audit Committee for ratification. Further, the Committee shall on an annual basis review and assess such transactions including the limits to ensure that they are in compliance with this Policy.

The omnibus approval shall be valid for a period of one year and fresh approval shall be obtained after the expiry of one year.

(6) Approval of Material Related Party Transactions

6.1 All Material Related Party Transactions shall require approval of the shareholders through special resolution and the Related Parties shall abstain from voting on such resolution.

6.2 The Company has fixed its materiality threshold at 10% of the annual consolidated turnover of the Company as per last audited financial statements of the company for the purpose of Clause 49(VII)(C) of the Listing Agreement

(7) Transactions not in ordinary course of business or not at arm's length

All Related Party Transactions in excess of the limits prescribed under the Companies Act, 2013, which are not in the Ordinary Course of Business or not at Arm's Length shall also require the prior approval of the shareholders through special resolution and the Related Parties shall abstain from voting on such resolution.

5.2 Related Party Transactions not previously approved

(1) If prior approval of the Audit Committee or Board or general meeting for entering into a Related Party Transaction is not feasible, then the Related Party Transaction shall be ratified by the Audit Committee and the Board / general meeting, if required, as promptly as practicable and within 3 months of entering in the Related Party Transaction.

(2) The Committee or the Board or the Shareholders shall consider all relevant facts and circumstances respecting such transaction and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such transaction, and the Company shall take such action as the Committee deems appropriate under the circumstances.

(3) In any case where either the Audit Committee or Board or a general meeting determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or the general meeting, as appropriate, 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. In connection with any review of a Related Party Transaction, the Audit Committee / Board has authority to modify or waive any procedural requirements of this Policy.

(4) In determining whether to approve or ratify a Related Party Transaction, the Audit Committee / Board will consider whether the Related Party Transaction is on reasonable terms having regard to the circumstances of the case. The Audit Committee and the Board will also take into account the extent of the Related Party's interest in the transaction.

5.3 Voting on the resolution for approval of Related Party Transaction

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, except that the director or Key Managerial Personnel shall provide all material information concerning the Related Party Transaction to the Audit Committee or Board.

6 Determination of Ordinary Course of Business

The Company should take into account the frequency of the activity and its continuity carried out in a normal organized manner for determining what is in the ordinary course business.

Following transactions with related parties would be considered to be in the ordinary course of business:

- (i) Buying or selling or importing or exporting of chemicals
- (ii) Agency, distribution, sub-agency, del-credere agent, commission agent with respect to chemicals;
- (iii) Rendering of services under Common service platform between related parties
- (iv) Loans, guarantees or security between related parties within limits as provided under the Companies Act;
- (v) Availing treasury related advisory services;
- (vi) Leasing of immovable property and movable assets;
- (vii) Buying and selling of assets (including sale to Key Managerial Personnel);
- (viii) Sharing costs under a common pool arrangement (Cost sharing agreement);
- (ix) Receiving and rendering services (e.g. research, technical, management, consultancy, outsourcing etc.);
- (x) Distributing dividend;
- (xi) Samples;
- (xii) Payment of Royalty and technical fees;
- (xiii) Any other transaction as deemed fit by the Audit Committee.

7 DETERMINATION OF ARM'S LENGTH NATURE OF THE RELATED PARTY TRANSACTION

'Arm's length transaction' means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

8 DISCLOSURES

8.1 The Company is required to disclose Related Party Transactions in the Company's Board's Report to shareholders of the Company at the Annual General Meeting.

8.2 Details of all Material Related Party Transactions shall be disclosed quarterly along with the Company's Compliance Report on Corporate Governance, in accordance with the Listing Agreement.

8.3 The Company is also required to disclose this Policy on its website and also provide web link to the same in the Annual Report of the Company.

8.4 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.

9 APPROVALS AND AMENDMENT

9.1 This Policy was approved and adopted by the Board of the Company at its meeting held on 13th February, 2015 based on the recommendations of the Audit Committee.

9.2 The Audit Committee would review and amend the Policy, as and when required, subject to the approval of the Board.