



POLICY ON **RELATED PARTY TRANSACTIONS**

HDFC Credila Financial Services Private Limited

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

CIN: U67190MH2006PTC159411

Website: www.hdfccredila.com

Prepared by :	Company Secretary & Compliance Officer of the Company
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
Last Revision Date:	January 16, 2017
Current Revision Date:	May 10, 2019
Version No.:	3.0
Review Cycle	As and when recommended by the Board/ Audit Committee

1. About the Company:

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

2. Scope and Purpose:

The Companies Act, 2013 (the Act), the rules framed thereunder and the Indian Accounting Standards. This Policy on dealing with Related Party Transactions is 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 has once again been amended by the Board of Directors of the Company at its meeting held on May 10, 2019. This Policy shall be effective from April 1, 2019.

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.

4. Terms of the Policy:

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

Provisions	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Shareholders (Ordinary Resolution)
Transactions in the <u>ordinary course of business</u> and on <u>arm’s length basis</u>		√	-	-

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 or Rs. 100 crore, whichever is lower
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.		√	√	√* 10% or more of the net worth or Rs. 100 crore, whichever is lower
Leasing of property of any kind.		√	√	√* 10% or more of the turnover or 10% or more of the net worth, or Rs. 100 crore whichever is lower
Availing or rendering of any services, directly or through appointment of agent		√	√	√* 10% or more of the turnover or Rs. 50 crore, whichever is lower
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 for such transactions, related parties that are parties to the contract shall abstain from voting.</i>				

5. Identification of Related Parties and Related Party Transactions

The Compliance Officer shall:

- a. Identify and keep on record Company's Related Parties, along with their personal/company details.
- b. Update the record of Related Parties whenever necessary and shall be reviewed at least once a quarter.
- c. 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

- a. 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:

- i.
 1. whether the transaction is in line with the usual transactions, customs and practices undertaken by the company to conduct its business operations and activities;
 2. whether it is permitted by the Memorandum and Articles of Association of the company; and
 3. 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:
 1. 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
 2. 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
 1. an exceptional or extra ordinary activity as per applicable accounting standards or financial reporting requirements;
 2. 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.
- iv. 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.
- v. 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

- i. Subject to the threshold limits specified below, all Related Party Transactions or changes therein must be referred for prior approval by the Audit Committee in accordance with this Policy.
- ii. The threshold limits for approvals will be as follows:
 - a. The Audit Committee may grant omnibus approval to the transactions as per the criteria approved at the Board Meeting held on April 18, 2016.
 - b. The transactions, for which omnibus approval of the Audit Committee has already been sought, will not require prior approval of the Audit Committee for each transaction entered into pursuant to the same

- c. Where the need for related party transaction 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. Such transactions shall also be reported to the Audit Committee on a quarterly basis.
 - d. In case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it:
- iii. Related Party Transactions that are not in ordinary course of business but on arm's length basis may be approved by Audit Committee. Where such Related Party Transactions fall under Section 188 (1) of the Act, the Audit Committee shall recommend the transaction for approval of the Board.
 - iv. Related Party Transactions that are not on arm's length basis, irrespective of whether those are covered under Section 188 of the Act or not, may be placed by the Audit Committee, along with its recommendations, to the Board for appropriate action.
 - v. Audit Committee shall be entitled to call for such 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.
 - vi. In determining whether approval can be accorded to a Related Party Transaction, the Audit Committee shall consider the following factors:
 - e. whether the Related Party Transaction is in the ordinary course of business of the Company;
 - f. whether the terms of the Related Party Transaction is on arm's length basis;
 - g. 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;
 - h. whether the Related Party Transaction would affect the independence of any director / key managerial person;
 - i. whether the proposed Related Party Transaction includes any potential reputational / regulatory risks that may arise as a result of or in connection with the proposed transaction; and
 - j. whether the Related Party Transaction would 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.
 - vii. 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 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 approve the Related Party Transaction at a meeting and the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be

necessary or appropriate under the circumstances.

- viii. If the Related Party Transaction needs to be approved at a general meeting of the shareholders by way of a resolution pursuant to Applicable Laws, the Board shall ensure that the same be put up for approval by the shareholders of the Company.
- ix. If approval of the Board / shareholders, where applicable, for entering into a Related Party Transaction is not feasible, then the Related Party Transaction shall be ratified by the Board / shareholders, if required, within 3 months of entering in the Related Party Transaction.

In any case where either the Board / shareholders determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or the shareholders, 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 Board has authority to modify or waive any procedural requirements of this Policy.

- x. 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, except that the director / Key Managerial Personnel shall provide all material information concerning the Related Party Transaction to the Audit Committee / Board.
- xi. Exceptions allowed under Applicable Laws for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit Committee/ Board decide otherwise.
- xii. Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy.
- xiii. The Audit Committee shall review all Related Party Transactions on a quarterly basis.

9. Additional matters pertaining to Omnibus Approval

- i. The following transactions shall not be deemed Related Party Transactions for the purpose of this Policy and as such no omnibus approval is required to be granted for same:
 - a. Any transaction that involves 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.
 - b. Reimbursement made of expenses incurred by a Related Party for business purpose of the Company, or Reimbursement received for expenses incurred by the Company on behalf of a Related Party.
 - c. Reimbursement of pre-in Company expenses incurred by or on behalf of a Related Party.

- d. Any transaction in which the Related Party's interest arises solely by way of ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party, or other pro rata interest of a Related Party included in a transaction involving generic interest of stakeholders involving one or more Related Parties as well as other parties.
- e. Recurring transactions flowing out of a principal transaction or arrangement for which the Audit Committee has granted its omnibus approval.
- f. Any other exception which is consistent with the Applicable Laws, including any rules or regulations made thereunder, and does not require prior approval by the Audit Committee.

10. Disclosures

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

11. Policy Review

This Policy 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.