

**POLICY ON**  
**RELATED PARTY TRANSACTIONS**

**SHUBH POULTRIES LTD**

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**CIN:** L01222CH1996PLC010845

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## PART – A

### INTENT AND CONTENT

#### **About the Company:**

Shubh Poultries Ltd (hereinafter referred to as 'the **Company**') is a public limited company incorporated on 31<sup>st</sup> March, 1996, under the Companies Act, 1956 (Corporate Identity Number L14297AP1988PLC074808). The equity shares of the Company are listed on Ahmadabad Stock Exchange Limited(ASE Limited) and as such the provisions of the listing agreements entered into by the Company with the said stock exchange (collectively referred to as the ' **Listing Agreements**') for equity shares, are applicable and binding on it.

#### **Scope and Purpose:**

During the course of its business, the Company enters into transactions with various entities. Some of the transactions were deemed to be 'Related Party Transactions' as per the Accounting Standard on Related Party Disclosures (AS 18), as notified by the Companies (Accounting Standards) Rules, 2006 and such transactions were duly disclosed in the Annual Reports of the Company.

However, the Companies Act, 2013, the Rules framed there under as well as the Clause 23 of the Listing Agreements relating to Corporate Governance, provide for detailed provisions on Related Party Transactions.

This Policy on Transactions with Related Parties (**Policy**) is framed as per the requirements of the Clause 23 of the Listing Agreements and intended to ensure proper approval and reporting of the concerned transactions between the Company and its Related Parties.

In view of the above, pursuant to the review and recommendations of the Audit Committee of Directors at its meeting held on, the Board of Directors of the Company (**Board**) approved this Policy at its meeting held on matters relating to Transactions with Related Party, as set out below.

#### **Clarifications, Amendments and Updates:**

As the Audit Committee of Directors of the Company is entrusted with the task of reviewing and approving transactions with Related Parties or any subsequent modifications thereof, it shall be the reviewing authority with respect to this Policy and shall recommend this Policy or amendments thereof for the approval of the Board.

The Executive Management of the Company comprising the Vice Chairman & Chief Executive Officer, Managing Director and Executive Director(s) shall have the authority, either singly or jointly, to issue such guidance and clarifications as may be deemed necessary for the implementation of this Policy. They are also authorized to delegate such powers as may be considered necessary and appropriate for effective administration and enforcement of this Policy to any officer(s) of the Company.

This Policy shall be deemed to have come into effect from January 1, 2016. This Policy may be amended, pursuant to the recommendation of the Audit Committee and subject to the approval of the Board.

The Audit Committee shall review this Policy at such interval as it may deem necessary and recommend the changes, if any, to this Policy for the approval of the Board of Directors of the Company.

All words and expressions used herein shall have the same meaning as assigned to them in the Companies Act, 2013; Rules framed there under and/or Clause 23 of the Listing Agreements, as amended, from time to time.

## **PART – B**

### **DEFINITIONS**

#### **1. Arm’s Length Transaction**

Explanation (b) to Section 188(1) of the Companies Act, 2013 defines an “*arm’s length transaction*” to mean *a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.*

#### **2. Associate Company**

##### **A. Companies Act, 2013:**

In terms of Section 2(6) of the Companies Act, 2013 “*Associate Company*” in relation to another company, means *a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.*

For the purposes of this term ‘Associate Company’, “*significant influence*” means control of at least twenty per cent of total share capital, or of business decisions under an agreement.

##### **B. Listing Agreement:**

The definition of the term “Associate” under the Listing Agreements is linked to the Accounting Standard on Related Party Disclosures (AS 18), which defines it to mean *an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party.*

For the purposes of AS 18, “*significant influence*” means *the participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.*

#### **3. Audit Committee**

The term “*Audit Committee*” means the committee of Board of Directors the Company constituted in accordance with the provisions of Clause 49 of the Listing Agreements, Companies Act, 2013 and Rules made there under.

#### **4. Material Related Party Transaction**

In terms of Clause 49(VII) (C) of the Listing Agreements, “*Material Related Party Transaction*” means a transaction / transactions to be entered into individually or taken together with previous transactions during a financial year that exceeds ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company.

## 5. Related Party

### A. Companies Act, 2013:

The term Related Party has been defined under Section 2(76) of the Companies Act, 2013 as follows-

***Related Party with reference to a company 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 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 2% of its paid-up share capital;*
- (vi) *anybody 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) *such other person as may be prescribed;*

Rule 3 of the Companies (Specification of definitions details) Rules, 2014, provides that a director or key managerial personnel of the holding company or his relative with reference to a company shall also be deemed to be a related party.

### B. Listing Agreements:

The term Related Party has been defined under Clause 49(VII) (B) of the Listing Agreement as follows:

*For the purpose of Clause 49 (VII), an entity shall be considered as related to the company if:*

- (i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or*
- (ii) such entity is a related party under the applicable accounting standards.*

### C. Accounting Standard:

As per Standard 10.1 of Accounting Standard 18 (AS 18) pertaining to Related Party Disclosures notified by the Companies (Accounting Standards) Rules, 2006, a Related Party is defined as follows -

*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.*

In view of the above definition, AS 18 further defines the terms 'control' and 'significant influence' as follows -

***Control –***

- a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or*
- b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or*
- c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise.*

***Significant Influence –***

*Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies.*

**6. Related Party Transaction**

Clause 49(VII) (A) of the Listing Agreements defines a "Related Party Transaction" to be a *transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.*

Further, it is also explained that a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.

**7. Relative**

In terms of Section 2(77) of the Companies Act, 2013 read with the Companies (Specification of definitions details) Rules, 2014 a person is said to be a relative of another, if -

- a. They are members of a Hindu undivided family;
- b. They are husband and wife;
- c. Father (including step-father);
- d. Mother ( including step-mother);
- e. Son ( including step-son);
- f. Son's wife;
- g. Daughter;
- h. Daughter's husband;
- i. Brother ( including step-brother); or
- j. Sister (including step-sister).

## **PART – C**

### **TERMS OF THE POLICY**

1. All the Related Party Transactions proposed to be entered into by the Company shall require the prior approval of the Audit Committee, including those transactions proposed to be entered in the ordinary course of its business.
2. All the contracts/ arrangements prescribed under Section 188(1) of the Companies Act, 2013 and within the threshold limits prescribed under Rule 15 (3) of Companies (Meetings of Board and its Powers) Second Amendment Rules, 2014, which are not in the ordinary course of business of the Company or on an arm's length basis shall along with the approval of the Audit Committee also require approval of the Board of Directors of the Corporation.
3. All the Material Related Party Transactions and Related Party Transactions exceeding the threshold limits prescribed under Clause 49 of the Listing Agreements, whether or not in the ordinary course of business of the Company or on an arm's length basis, shall require prior approval of the Audit Committee, the Board and the shareholders of the Company by way of Special Resolution and the related parties shall abstain from voting in such resolution.

Further, the Companies (Meetings of Board and its Powers) Rules, 2014 states that in case of a wholly owned subsidiary, the special resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between the wholly owned subsidiary and the holding company.

4. However, it is clarified that all Related Party Transactions exceeding the threshold limits prescribed under Rule 15(3) of Companies (Meetings of Board and its Powers) Second Amendment Rules, 2014, which are in the ordinary course of business and on an arm's length basis, will only require the prior approval of the Audit Committee, provided that such Related Party Transactions do not exceed the materiality threshold as provided under Clause 49(VII) C of the Listing Agreements.

## PART – D

### GOVERNANCE STRUCTURE

#### **1. Identification of Related Party Transactions**

- (i) Related Party Transactions are required to undergo a detailed analysis before arriving at a conclusion as to its impact as well as the course of action with regard to the approval requirements from the concerned bodies. The Companies Act, 2013, Rules made there under and Clause 49 of the Listing Agreements have laid down procedures for dealing with Related Party Transactions.
- (ii) In terms of Section 188 (1) of the Companies Act, 2013, the Company cannot enter into any contract or arrangement with a Related Party, without the consent of the Board with respect to the following contracts/ arrangements viz.
  - a. sale, purchase or supply of any goods or materials;
  - b. selling or otherwise disposing of, or buying property of any kind;
  - c. leasing of property of any kind;
  - d. availing or rendering of any services;
  - e. appointment of any agent for purchase or sale of goods, materials, services or property;
  - f. such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
  - g. underwriting the subscription of any securities or derivatives thereof, of the company.

In relation to the above, the expression “office *or place of profit*” has been explained to mean any office or place—

- a. *where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;*
  - b. *where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.*
- (iii) In terms of the third proviso to Section 188(1) of the Companies Act, 2013, the consent of the Board and the shareholders of the Company will not be required in case any of the aforementioned transactions entered into by the Company are in the ordinary course of business and on an arm’s length basis.
  - (iv) The Company has established internal procedures wherein the relevant details of Related Parties are collated based on the disclosures received. This list shall be shared with the concerned departments for their information and necessary compliances as stated in this Policy.

- (v) The Related Party list shall be updated periodically and shall be reviewed at least once a year, as on 1<sup>st</sup> April every year.
- (vi) The Company shall also constitute a core team of personnel drawn from various departments of the Company which shall determine whether any given transaction with a Related Party falls within the purview of the transactions listed under Section 188(1) of the Companies Act, 2013, as aforementioned.
- (vii) For the purpose of implementing the provisions of this Policy, the Company shall provide the Audit Committee timely and relevant information as stated under point 4 below with regard to the Related Party Transactions.
- (viii) The Audit Committee shall confirm to the Board whether the Related Party Transactions entered into by the Company during the period under consideration were on an arm's length basis and in the ordinary course of its business.

## **2. Ascertaining whether Related Party Transactions are on an Arm's Length Basis**

- (i) The tests for ascertaining arm's length relationship in case of contracts / arrangements that may be entered into by the Company with related parties could be on the following lines -
  - a. The contracts/ arrangements are entered into with related parties, at such prices/ discounts/ premiums and on such terms which are offered to un-related parties of similar category/ profile.
  - b. The contracts/ arrangements have been commercially negotiated.
  - c. The pricing is arrived at as per the guidelines that may be issued by the National Housing Bank/ Ministry of Corporate Affairs, Government of India/ Income Tax Act, 1961, Securities and Exchange Board of India as applicable to any of the contract/ arrangements contemplated under the Companies Act, 2013, Rules framed there under or Clause 49 of the Listing Agreements.
  - d. The payments to group companies are made in the manner and at such rates prevalent in the market for similar category of goods and services and similar category/ profile of customers.
  - e. Any modification to the original contract/ arrangements is substantially on the same price/ discount/ premium and on such terms, as offered to un-related parties of similar category/ profile.
  - f. Such other criteria as may be issued by the Institute of Chartered Accountants of India or any other statutory/ regulatory authority
- (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 Rule10B 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 Company may also appoint an independent external agency that shall confirm the most appropriate methodology for arriving at the arm's length price as prescribed under Section 92C(1) of the Income Tax Act, 1961 read with Rule 10B of the Income Tax Rules, 1962 for those transactions that have been /are to be entered into with Related Parties.
- (iv) Further, the Company shall also obtain a certificate from an internal auditor or such other agency duly appointed for the purpose of certifying that all the transactions that have been /are to be entered into with Related Parties, are in accordance with the most appropriate pricing methodology as suggested by the independent external agency and also in the ordinary course of business of the Company..

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

- (i) In order to decide whether or not a contract or arrangement is being entered by the Company is in its ordinary course, the Company shall consider whether such contract/ arrangement is germane to attainment of the main objects as set out in its Memorandum of Association or such other activities as may be permitted, from time to time.
- (ii) The Company shall 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.
- (iii) 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.
- (iv) These are not exhaustive criteria and the Company will have to assess each transaction considering its specific nature and circumstances.

**4. Consideration for Approval of Related Party Transactions**

- (i) The approval of the Audit Committee is required for entering into any Related Party Transaction, including any amendment or modification to such transaction. Relevant information will be provided with respect to each Related Party Transaction as follows:
  - a. the name of the related party and nature of relationship;
  - b. the nature, duration of the contract and particulars of the contract or arrangement;
  - c. the material terms of the contract or arrangement including the value, if any;
  - d. the material terms of the contract or arrangement including the value, if any;
  - e. the material terms of the contract or arrangement including the value, if any;

- f. the material terms of the contract or arrangement including the value, if any;
  - g. any advance paid or received for the contract or arrangement, if any;
  - h. the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
  - i. whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors; and
  - j. any other information relevant or important for the Committee to take a decision on the proposed transaction.
- (ii) 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.
- (iii) In determining whether approval can be accorded to a Related Party Transaction, the Audit Committee will consider the following factors:
- a. whether the transaction with the Related Party is in the ordinary course of business of the Company;
  - b. whether the terms of the Related Party Transaction are on arm's length basis;
  - c. whether there are any undue compelling 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 would affect the independence of any director / key managerial person.
  - e. 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
  - f. 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.
- (iv) 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 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.
- (v) No member of the Audit Committee/ Board shall participate in the review or approval of any Related Party Transaction with respect to which such Member or any of his or her relatives is a Related Party.

## **5. Omnibus Approval by the Audit Committee**

- (i) In case of certain frequent/ repetitive/ regular transactions with Related Parties which are in the ordinary course of business of the Company (including transactions for support services / sharing of services with Subsidiary / Associate Companies), the Audit Committee may consider grant of an omnibus approval for such Related Party Transactions proposed to be entered into by the Company, subject to the following conditions:
  - a. The Audit Committee shall lay down the criteria for granting such omnibus approval in line with this Policy.
  - b. It shall satisfy itself that the need for such omnibus approval and that such approval is in the business interest of the Company.
  - c. Such omnibus approval shall specify (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, (ii) the indicative base price or current contracted price and the formula for variation in the price, if any and (iii) such other conditions as the Audit Committee may deem fit;

Provided that where the need for Related Party Transaction cannot be foreseen and the aforesaid details are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 crore per transaction.

- (ii) The details of such transactions viz. actually entered into/ executed by the Company shall be tabled at the next meeting of the Audit Committee for its ratification.
- (iii) Such omnibus approval shall be valid for a period not exceeding 1 (one) year and shall require fresh approval after the expiry of 1 (one) year from the date of the original approval granted by the Audit Committee, from time to time.
- (iv) In terms of Clause 49(III) (E) (2) of the Listing Agreements, the Audit Committee shall review the statement containing significant Related Party Transactions. The threshold limit for determining significant Related Party Transactions will be the same as applicable for Material Related Party Transactions under Clause 49(VII) C of the Listing Agreements, as amended from time to time.

## **6. Material Transactions with Related Parties**

- (i) In terms of Clause 49(VII) C of the Listing Agreements, even if a transaction with a Related Party is in the ordinary course of business and on an arm's length basis, Material Related Party Transactions shall require the approval of the shareholders of the Company through a special resolution wherein the Related Parties shall abstain from voting on the concerned matter. It also stipulates that in relation to Related Party Transactions, all entities falling within the definition of 'related parties' are to abstain from voting irrespective of whether the entity is a party to the particular transaction or not.
- (ii) However, in case of any Material Related Party Transaction entered into between the Company and any of its wholly owned subsidiary companies whose accounts are consolidated with that of the Company and placed before the shareholders at the general meeting for their approval, the said requirement of seeking the approval of the shareholders by way of a special resolution shall not be applicable.

**PART – E**

**DISSEMINATION OF INFORMATION**

The Company shall upload this Policy on its website i.e., [www.shubhpoultresltd.com](http://www.shubhpoultresltd.com) and a weblink of the same will be provided in the Annual Report. Disclosures regarding Material Related Party Transactions, if any, shall be disclosed to the stock exchanges along with the quarterly Compliance Report on corporate governance.

The Company shall also make relevant disclosures in its Annual Report and maintain such registers as required under the provisions of the Companies Act, 2013, Rules made there under and Clause 49 of the Listing Agreements.

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