



## **MEGASTAR FOODS LIMITED**

CIN: L15311CH2011PLC033393

Regd. Office: PLOT NO. 807, INDUSTRIAL AREA, PHASE-II CHANDIGARH- 160102

Tel: +91 1881 240401, E-Mail – [cs@megastarfoods.com](mailto:cs@megastarfoods.com)

Website: [www.megastarfoods.in](http://www.megastarfoods.in)

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

## I. Preamble

The Board of Directors of the Company has adopted the following policy with respect to Related Party Transactions, in compliance with the requirements of the Companies Act 2013 and Rules made thereunder and SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 as amended from time to time (the Regulations).

This policy is intended to ensure procedural fairness, proper approval and reporting of transactions between the Company and any of its related parties.

## II. Scope of the Policy

This Policy sets out the guidelines and procedures that apply in respect of transactions entered into by the Company with a Related Party.

## III. Definitions

Please refer to **Annexure I**. Any term not defined in the said annexure shall have the same meaning as given in the Companies Act, 2013 and rules made thereunder and/ or the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

## IV. Related Party Transactions Statutory Approvals

### A. Audit Committee Approval

All Related Party Transactions and any subsequent amendment shall require prior approval of the Audit Committee. The requirement of prior approval shall not be applicable in case of transactions entered into between the Company and any of its Wholly Owned Subsidiary (ies) whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

### B. Board of Directors' Approval

All related party transactions covered u/s 188 of the Companies Act, 2013 & rules made thereunder, detailed under **Table A**, which are not in ordinary course of business and/or on arm's length basis needs to be placed before the Board for their approval.

### C. Shareholders' Approval

#### i. Companies Act, 2013

The transactions, as mentioned under **Clause B** above, which are not in the ordinary course of the business and arms' length basis and which exceeds the limits, as mentioned hereinabove, require approval by the Board and subsequent prior approval of the shareholders as well.

## **ii. SEBI (Listing Obligations & Disclosure Requirements), Regulations 2015**

Under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, if the related party transaction (whether at arm's length or not) is MATERIAL, then it require approval of the shareholders by way of Ordinary Resolution.

In case Board refers a related party transaction for seeking approval of the shareholders as per the provisions of Companies Act 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 or otherwise, all the persons/entities falling under the definition of related parties shall not vote to approve the related party transaction irrespective of whether the person/entity is party to the particular transaction or not.

### **D. Transactions Which Do Not Require Approval**

Notwithstanding the abovementioned, the following Related Party Transactions shall not entail any approval:

- i. Any transaction concerning providing of compensation to a director/KMP in connection with his duties to the Company including the compensation of reasonable business and travel expenditures incurred in the ordinary course of business.
- ii. Any transaction in which the Related Party's interest arises solely from possession of securities issued by the Company and all holders of such securities obtain the same benefits pro rata as the Related Party.
- iii. Contributions made by the Company to a charitable organization, trust or foundation at which a related party is a trustee, director or employee.
- iv. Transactions that have been approved by the Board under the specific provisions of the Companies Act, e.g. inter-corporate deposits, borrowings, guarantee, loan, provision for security, investments with or in wholly owned subsidiaries or other Related Parties
- v. Transactions involving corporate restructuring, such as buy-back of shares, capital reduction, merger, demerger, hive-off etc. approved by the Board.
- vi. Transactions available to all employees generally.

### **E. Related Party Transactions Not Approved Under This Policy**

If a Related Party Transaction is entered into by the Company without being approved under this Policy, the same shall be reviewed by the Committee and/or Board, if applicable. The Committee/Board shall evaluate the transaction and may decide such action as it may consider appropriate including ratification, revision or termination of the Related Party Transaction.

## V. Procedure

### A. Ascertaining Related party

- I. Every director/KMP shall at the first meeting of the Board in which he participates as a director/KMP and thereafter at the first meeting of the Board in every financial year or whenever there is any change in the disclosures already made, then at the first Board meeting held after such change, disclose his/her concern or interest in any company or companies or bodies corporate, firms, or other association of individuals which shall include the shareholding in **Form MBP-1**.
- II. Company Secretary based on declaration in **Form MBP-1** and other available information shall identify all related parties.

CFO and Company Secretary shall at all times maintain a database of Company's Related Parties in Management Information System (MIS) & it shall be updated whenever necessary and shall be reviewed in each quarter. CEO, CFO and corporate functional heads would have access to this data base in ERP system.

### B. Identification and validation of related parties transaction

- i. Every Director, KMP, Divisional CEO/CFO & the Departmental Heads will be responsible for providing prior Notice to the Company Secretary/CFO of any potential transaction with Related Party.
- ii. The Divisional CEO/CFO & the Departmental Heads shall submit to the Internal Auditor the details of all existing/proposed transaction along with supporting documents.
- iii. Internal Auditor shall submit his report to the Audit Committee giving his comments as to whether existing/proposed transaction(s) are on arms' length basis and in ordinary course of business having consideration to guidelines given as per **Annexure II**, where ever applicable.
- iv. Audit Committee will give due consideration to Internal Auditor's report while deciding whether a transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

### C. Review and approval of Related Party Transaction

The Audit committee shall consider the following factors while deliberating the related party transactions for its approval: -

- i. Name of party and details explaining nature of relationship;
- ii. Name of the director or KMP, who is related, if any;
- iii. Nature of transaction and material terms thereof including the value, if any;
- iv. Business rationale for entering into such transaction;
- v. Internal Auditor's report and supporting documents.

- vi. Nature, material terms, monetary value and particulars of contract or arrangement;
- vii. Fair and on arm's length basis
- viii. Whether the Related Party Transaction would affect the independence of an independent Director and
- ix. Any other information relevant or important for the Committee to take a decision on the proposed resolution.

**D. Omnibus Approval by the Committee**

The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company which are repetitive in nature subject to compliance of the conditions contained in Listing Regulations and Companies Act, 2013 and Rules made thereunder, as amended from time to time. The Committee shall also satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company.

In case the need for Related Party Transaction cannot be foreseen and aforesaid details as per table-B are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 Crore per transaction and subject to condition that approval shall be valid for a period not exceeding one financial year and shall require fresh approval after expiry of such financial year.

**E. Approval by the Board**

If the Committee determines that a related party transaction is (i) Material OR (ii) Within the limits as prescribed under section 188 of the Companies Act, 2013 read with rules made thereunder as detailed under Table A, not in the ordinary course of business and/or arm's length price, the committee shall place the matter along with recommendations before the board for obtaining its approval.

**VI. DOCUMENTATION**

- A. The Company shall maintain a register, physically or electronically, giving separately the particulars of all contracts or arrangements to which this policy applies and such register shall be placed/taken note of before the meeting of the Board of directors.
- B. The Company shall maintain such register at the Corporate Office of the Company and provide extracts from such register to a member of the Company on his request, as per the applicable provisions of the Act.
- C. The register to be kept under this section shall also be produced at the commencement of every AGM of the Company and shall remain open and accessible during the continuation of the meeting to any person having the right to attend the meeting.
- D. The register shall be preserved permanently and shall be kept in the custody of the Company Secretary.

## **VII. REPORTING & DISCLOSURES**

The Company shall comply with all the reporting and disclosure requirements as may be prescribed from time to time in terms of applicable laws including the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

## **VIII. REVIEW AND AMENDMENT**

Though, the Audit Committee or Board shall have all the right to amend this Policy, however, this Policy may stand amended because of any regulatory amendments, clarifications etc. in the applicable laws. The amendment shall be deemed to be effective from the date on which such regulatory amendments, clarifications etc. comes into force. The adequacy of this Policy shall be reviewed and reassessed by the Committee once in every three years and appropriate recommendations shall be made to the Board to update the Policy accordingly.

## Annexure-I

### Definitions

- I. **“Act”** means the Companies Act, 2013 and the rules and regulations notified thereunder as amended from time to time.
- II. **“Arm’s Length Transaction”** means a transaction among two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- III. **“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.

Explanation.—For the purpose of this clause,—

- (a) The expression "significant influence" means control of at least 20% of total voting power, or control of or participation in business decisions under an agreement;
  - (b) The expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;
  - (c) the expression “Total Voting Power” in relation to any matter means the total number of votes which may be cast in regard to the matter on a poll at a meeting of a company if all the members thereof or their proxies having right to vote on that matter are present at the meeting and cast their votes.
- IV. **“Audit Committee or Committee”** means Committee of Board of Directors of the Company constituted under provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 & Companies Act, 2013.
  - V. **“Board”** means Board of Directors of the Company.
  - VI. **“Materiality of Transaction:**

**Brand Usage or Royalty:** 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 2% of the annual consolidated turnover of the Company as per the last audited financial statements.

**Any other Transaction:** A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements.

- VII. **“Key Managerial Personnel”** means:
- i. Chief Executive Officer or Managing Director or Manager;
  - ii. Company Secretary;
  - iii. Whole Time Director;
  - iv. 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.
- VIII. **SEBI (LODR)** means SEBI (Listing Obligations & Disclosure) Requirements, 2015.
- IX. **“Omnibus Approval”** means a consolidated/standing approval given by the Committee in respect of transaction(s) which are repetitive in nature.
- X. **“Ordinary Course of Business”** may include the usual transactions, customs and practices of the company, or transactions permitted by the Object Clause in the Memorandum of Association of the Company.
- XI. **“Policy”** means Related Party Transaction Policy.
- XII. **“Relative”** means relative as defined under the Companies Act, 2013 and includes anyone who is related to another, if :
- i. They are members of a Hindu undivided family;
  - ii. They are husband and wife; or
  - iii. Father (including step-father)
  - iv. Mother (including step-mother)
  - v. Son (including step-son)
  - vi. Son’s wife
  - vii. Daughter
  - viii. Daughter’s husband
  - ix. Brother ( including step-brother)
  - x. Sister (including step-sister)
- XIII. **“Related Party”** means a related party as defined under sub section (76) of section 2 of the Companies Act, 2013 or under applicable accounting standards.
- Provided that any person or entity belonging to the promoter or promoter group of the company and holding 20% or more of shareholding in the Company shall be deemed to be related party.
- XIV. **“Related Party Transaction”** means any transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged and includes:
- a. sale, purchase or supply of any goods or material;
  - 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. a 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 of the Company, and (The above

is an indicative list and not an exhaustive one).

XV. **“Transaction”** with related party shall be construed to include a single transaction or a group of transactions.

## Annexure-II

### Guidelines on Determination of Basis of Arm's Length Price

These are guidelines to employees on applying the arm's length principle. The guidance on arm's length principle is applicable to all transactions, both local and cross-border, between TCI and its related parties.

#### Arm's Length Basis

The arm's length principle requires the transaction with a related party to be made at similar terms & price under comparable conditions and circumstances as a transaction with an independent party.

The application of arm's length principle involves the identification of comparable situation(s) or transaction(s) undertaken by independent parties against which the related party transaction or margin is to be benchmarked. This step is commonly known as "comparability analysis". It entails an analysis of the similarities and differences in the conditions and characteristics that are found in the related party transaction with those in an independent party transaction.

#### Factors Affecting Comparability

**a- Characteristics of Goods, Services or Intangible Properties under transactions**

The specific characteristics of goods, services or intangible properties play a significant part in determining their values in the open market. For instance, a product with better quality and more features would, fetch a higher selling price.

**b- Analysis of Functions, Risks and Assets**

Proposed pricing depends on functional characteristics of the assets used and risks assumed. For instance, an entity selling a product with warranty should earn a higher return compared to another entity selling the same product without the provision of warranty. Likewise, a product with a reputable branding is expected to fetch a higher return compared to that of a similar product without the branding.

**c- Commercial and Economic Circumstances**

Prices may vary across different markets even for transactions involving the same property or services. In order to make meaningful comparisons of prices or margins between entities/transactions, the markets and economic conditions in which the entities operate or where the transactions are undertaken should be comparable.

**d- Government policies and regulations**

Such as price controls etc. may have an impact on prices and margins. Hence, the effects of these regulations should also be examined as part of the examination for comparability of the market and economic conditions.

**e- Commercial parlance, customs and trade practices**

Custom and trade practices in respect of particular transaction(s) are important in determining

arm's length basis. For example, interest free security deposits given in property lease transactions.

### **Concluding basis of Arm's length price**

Based on comprehensive assessment of outcome of comparability analysis, significant similarities and differences between the transactions/entities in question and those to be benchmarked against, adjustments could be made for material differences identified.