

SHARAD FIBRES AND YARN PROCESSORS LIMITED

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POLICY ON RELATED PARTY TRANSACTIONS

1. SCOPE AND PURPOSE OF THE POLICY

Related party transactions can present a potential or actual conflict of interest which may be against the best interest of the company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 ("Act") read with the Rules framed there under and Clause 49 of the Listing Agreement (as amended by SEBI Circulars dated April 17, 2014 and September 15, 2014), Sharad Fibres and Yarn Processors Limited (hereinafter referred to as "the Company") has formulated guidelines for identification of related parties and the proper conduct and documentation of all related party transactions.

Also, 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.

In light of the above, the company has framed this Policy on Related Party Transactions ("Policy"). This Policy has been adopted by the Board of Directors of the Company based on recommendations of the Audit Committee. Going forward, the Audit Committee would review and amend the Policy, as and when required, subject to the approval of the Board.

2. OBJECTIVE

The objective of this Policy is to set out (a) the materiality thresholds for related party transactions and; (b) the manner of dealing with the transactions between the Company and its related parties based on the Act, Clause 49 of the Listing Agreement and any other laws and regulations as may be applicable to the Company.

3. APPLICABILITY

This Policy shall come into force with effect from 1st April, 2014 and shall be applicable to transactions made with:-

- (a) Board of Directors & their Relatives
- (b) Key Managerial Personnel (KMP) of the Company and their Relatives, and
- (c) Other Related Parties, as defined hereinafter.

4. DEFINITIONS

- "**Audit Committee or Committee**" means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing agreement.
- "**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. (Section 188 of the Companies Act, 2013).
- "**Board of Directors**" or "**Board**" in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013).
- "**Control**" includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner:
- Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position; [As per SEBI (SAST) Regulation]
- "**Key Managerial Personnel**" means, [Section 2(51) of the Companies Act, 2013]
Managing Director;
Chief Executive Officer or manager;
Whole- time director;
Chief Financial Officer; and
Company Secretary
- "**Material Related Party Transaction**" means a transaction with a related party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed(s) ten percent of the annual turnover of the company as per the last audited financial statements of the company, ([Clause 49 of the Listing Agreement](#))
- "**Policy**" means Related Party Transaction Policy.
- "**Related Party**" with reference to a Company, shall have the same meaning as defined in Section 2(76) of the Companies Act, 2013 and Clause 49 of the Listing Agreement.

- **"Related Party Transaction" (RPT)** means -
 - for the purpose of the Act, specified transaction mentioned in clause (a) to (g) of sub-section 1 of Section 188;
 - for the purpose of RC 49, any transaction involving any Related Party which is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged.

A "transaction" with a related party shall be construed to include single transaction or a group of transactions in a contract.

- **"Approval by disinterested shareholders"** means, voting by shareholders in favour of the Special Resolution (with three fourth approving this), other than Directors and Promoters/Promoter Group.

5. POLICY

5.1 Broad Principles

Any transaction with the subsidiary companies / related parties will be governed by the following broad principles:

- Globally distributed Delivery Model.
- The sub-contracting will happen where skills and Intellectual Property are available.
- Geography to which delivery to be made will also be taken into account while sub-contracting.
- The transactions can be either from Parent Company to Subsidiary Company (ies) and vice versa and also among the Group Companies.
- Price at arm's length - transfer pricing rules and regulations will apply.
- All Related Party Transactions must be referred to Audit Committee for prior approval by the Committee in accordance with this Policy-
- Irrespective of the value;
- Even if the transaction is exempted;
- Including any modification of such contracts.

5.2 Identification of Potential Related Party Transactions

Each Director and Key Managerial Personnel is responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her relative, including any additional information about the transaction that the Board/Audit Committee may reasonably require. Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with the Policy.

The Company strongly advocates receipt of such notice of any potential Related Party Transaction well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction.

What is not a Related Party Transaction? (Transactions that are exempted)

The transaction entered into by the company:

In ordinary course of business (this is not a defined term in the Act and will have to be interpreted on a case to case basis) i.e. a business as stated in main object(s) clause of the Memorandum of Association of the company and should be a business which is usual or customarily carried on by the company at regular intervals; but on the contrary Clause 49 of the Listing Agreement does not specify any exemption for Related Party Transactions entered in ordinary course of business. **And**

On arm's length basis i.e. a transaction between two related parties that is conducted as if they were unrelated or in other words at competitive market rates prevailing, so that there is no conflict of interest. The price and other terms in the contract with the Related Party are to be similar as would be applicable to any third party.

However, in both the above circumstances a proof / evaluation is required to affirm that the transaction is not RPT. This would need to be consistent with domestic transfer pricing requirements as well under the Income Tax Act, 1961.

5.3 Prohibitions related to Related Party Transactions

- i. all Related Party Transactions shall require prior approval of Audit Committee.
- ii. Notwithstanding the foregoing, the following Related Party Transactions (only if they are not Material Related Party Transactions) shall not require approval of the Shareholders;
 1. Sale / Purchase / supply of any goods or materials Not exceeding 10% of annual turnover or Rs. 100 Crores, whichever is lower.
 2. Selling /Disposing / Buying of Property Not exceeding 10% of net worth or Rs. 100Crores, whichever is lower
 3. Leasing of property Not exceeding 10% of net worth or 10% of turnover or Rs. 100Crores, whichever is lower

4. Availing / rendering of any services Not exceeding 10% of turnover or Rs. 50 Crores, whichever is lower
5. Appointment to hold place of profit in Co, its Sub / Associate Co Not exceeding Monthly remuneration of Rs. 2.5 Lakhs
6. Remuneration for underwriting of securities or derivatives not exceeding 1% of net worth of the Company

5.4 Review and Approval of Related Party Transactions

Related Party Transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

To review a Related Party Transaction, the Committee will be provided with all relevant and complete material information of the Related Party Transaction, including the nature, terms and duration of the transaction, the business purpose, justification of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters. In determining whether to approve a Related Party.

Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there are any compelling business reasons for the Company to enter into the related Party Transaction and the nature of alternative transactions, if any;
- Whether the Related Party Transaction would affect the independence of an independent director;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and

- Whether the Related Party Transaction would present a conflict of interest for any Director or Key Managerial Personnel of the Company, taking into account the size of the transaction, direct or indirect nature of the director's, 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 Board/Committee deems relevant.
- Whether the Company has obtained the opinion of an Independent Chartered Accountant that the proposed transaction is in compliance with the relevant provisions of the Companies Act, Income Tax Act and the Listing Agreement with Stock Exchanges.

Approval of the Board

As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business and at arm's length basis, are placed before the Board for its approval.

In addition to the above, the following kinds of transactions with related parties are also placed before the Board for its approval:

- Transactions which may be in the ordinary course of business and at arm's length basis, but which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
- Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;
- Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval.
- Transactions meeting the materiality thresholds of the Policy, which are intended to be placed before the shareholders for approval.

Approval of Shareholders

All the transactions with related parties meeting the materiality thresholds, laid down in the Policy, are placed before the shareholders for approval.

For this purpose, all entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

Regulation 23 (5) of SEBI (LODR) Regulations, 2015 provides that the requirement for seeking shareholders' approval shall not be applicable to transactions between two Government Companies and between a holding Company and its wholly owned subsidiary/ies whose accounts are consolidated with the Company.

In addition to the above, all kinds of transactions specified under Section 188 of the Act which (a) are not in the ordinary course of business and at arm's length basis; and (b) exceed the thresholds laid down in Companies (Meetings of Board and its Powers) Rules, 2014 are placed before the shareholders for its approval.

6. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY

In the event the Company becomes aware of a transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Committee. The Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take such action it deems appropriate. In any case, where the Committee decides not to ratify a Related Party Transaction that has been commenced without approval, the Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Committee has the authority to modify or waive any procedural requirements of this Policy.

7. REPORTING REQUIREMENTS

The Company shall report in the Annual Report, the transactions that require the approval of the Board and shareholders with justification for entering into such contract or arrangement.

8. PENALTIES

Notwithstanding the quantum of penalties having been raised in the Companies Act, 2013, violation of the provisions governing RPT also stipulate imprisonment up to one year. Section 188(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a special resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board 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.

Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

Any director or any other employee of a company, who had entered into or authorized the contract or arrangement in violation of the provisions of this section shall, –

(i) in case of listed company, be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both; and

(ii) in case of any other company, be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees.

9. REVIEW

The policy shall be reviewed by the Audit Committee and the Board, from time to time as may be necessary. This Policy will be communicated to all related parties, operational employees and other concerned persons of the Company and also uploaded on the website.
