

2015

# Related Party Transactions Policy

**FAG Bearings India Limited**

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**FAG Bearings India Limited****1. BACKGROUND**

The Companies Act, 2013 read with Companies (Meetings of Board and its Powers) Rules, 2014 and Corporate Governance norms prescribed under the Listing Agreements together provide the detailed mechanism for dealing with Related Party Transactions and mandate the Company to formulate a policy on materiality of related party transactions and also on dealing with such transactions.

Keeping in view the above mentioned compliance requirements, the Board of Directors of FAG Bearings India Limited [CIN:L29130MH1962PLC012340] (hereinafter referred as 'FAG' or 'Company'), acting upon the recommendations of the Audit Committee of the Company, has adopted this Policy on materiality of Related Party Transactions and dealing with those.

All Related Party Transactions as defined in this Policy shall be subject to review in accordance with the procedures set forth below.

This Policy applies to transactions between the Company and one or more of its Related Parties. It provides a framework for governance and reporting of Related Party Transactions including material transactions.

**OBJECTIVE:**

This Policy is intended to ensure due and timely identification, approval, disclosure and reporting of transactions between the Company and any of its Related Parties in compliance with the applicable laws and regulations as may be amended from time to time.

The provisions of this Policy are designed to govern the approval process and disclosure requirements to ensure transparency in the conduct of Related Party Transactions in the best interest of the Company and its shareholders and to comply with the statutory provisions in this regard.

**2. GOVERNING LAW & GUIDELINES:**

This Policy has been framed in alignment with the prevailing provisions of;

1. Section 188 and other corresponding provisions of the Companies Act, 2013,
2. Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014,
3. Clause 49 of the Listing Agreement on 'Corporate Governance,
4. Accounting Standard – 18, and
5. Resolutions passed in the Meetings of Board or Committee thereof pertaining to Related Party Transactions.

**FAG Bearings India Limited****3. DEFINITION AND INTERPRETATION****DEFINITION:**

- 3.1 “Annual Turnover” and “Annual Consolidated Turnover”: means turnover of the Company as reflected in the audited financial statements of the preceding financial year on stand alone and consolidated basis respectively.
- 3.2 “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
- 3.3 “Arm’s Length Price”: means a price which is applied or proposed to be applied in a Transaction between two unrelated persons
- 3.4 “Associate”: means an enterprise in which the Company has a significant influence, but which is not a subsidiary company of the Company having such influence and includes a joint venture and the term “Associate Company” shall be interpreted accordingly.
- 3.5 “Audit Committee”: means Committee of Board of Directors of the Company constituted under provisions of Listing Agreement and the Companies Act, 2013
- 3.6 “Board”: means Board of Directors of the Company
- 3.7 “Chief Executive Officer” or “CEO”: means the Managing Director of the Company unless he is an officer of the Company, who has been designated as such
- 3.8 “Chief Financial Officer” or “CFO”: means a person appointed as the Chief Financial Officer of the Company
- 3.9 “Company Secretary”: means a person who is appointed by the Company to perform the functions of the company secretary under the Companies Act, 2013
- 3.10 “Concern” or “Interest”: means either by himself or through his relatives:  
a. with reference to a company, its directorship or membership; or  
b. with reference to a firm, its partnership
- 3.11 “Key Managerial Personnel” or “KMP”: means-  
a. the Chief Executive Officer or the Managing Director or Manager.  
b. the Company Secretary;  
c. the Whole-time Director;  
d. the Chief Financial Officer;  
e. such other officer as may be prescribed under Section 2(51) of the Companies Act, 2013.

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- 3.12 “Manager”: means an individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of the affairs of the Company, and includes a director or any other person occupying the position of a manager, by whatever name called, whether under a contract of service or not
- 3.13 “Material Related Party Transactions”: means, for the purpose of Clause 49 of the Listing Agreements, transaction/s to be entered into with a Related Party, individually or taken together with previous transactions during a financial year, which exceed ten percent of the Annual Consolidated Turnover of the Company as per the last audited financial statements of the Company.
- 3.14 “Net Worth”: means net worth of the Company computed in accordance with Section 2(57) of the Companies Act, 2013 based on the audited financial statements of the preceding financial year
- 3.15 “Policy”: means this Related Party Transactions Policy
- 3.16 “Related Party” with reference to a company means:
- a. a director or his relative;
  - b. a Key Managerial Personnel of the Company or his relative;
  - c. a firm, in which a director, Manager or his relative is a partner;
  - d. a private company in which a director, Manager or his relative is a member or director;
  - e. a public company in which a director or Manager is a director and holds along with his relatives, more than two percent of its paid-up share capital;
  - f. any body 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;
  - g. any person under whose advice, directions or instructions a director or Manager is accustomed to act unless the advice, directions or instructions are given in a professional capacity;
  - h. any company which is:
    - a. a holding, subsidiary or Associate Company of such company; or
    - b. a subsidiary of a holding company to which it is also a subsidiary
  - i. a director (other than an independent director) or Key Managerial Personnel of the holding company or his relative;
  - j. any other entity which is a Related Party under the applicable accounting standards
- 3.17 “Related Party Transactions”: means any transaction directly or indirectly involving any Related Party which is a transfer of resources, services or obligations between the Company and a Related Party, regardless of whether a price is charged and it also includes any transaction specified in Section 188 of the Companies Act, 2013

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- 3.18 “Relative”: means relative as defined under the Companies Act, 2013 and includes anyone who is related to another in any of the following manner:
- a. members of a Hindu Undivided Family;
  - b. 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)
- 3.19 “Specified Related Party Transactions”: means the following transactions with Related Parties **which are not in the ordinary course of business** of the Company **or which are in the ordinary course of business but not at arm’s length**:
- a. sale, purchase or supply of any goods or materials, directly or through appointment of agent, exceeding 10% of the Annual Turnover of the Company or Rs. 100 crores, whichever is lower; or
  - b. selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent, exceeding 10% of the Net Worth of the Company or Rs. 100 crores, whichever is lower; or
  - c. leasing of property of any kind exceeding 10% of the Net Worth of the Company or 10% of the Annual Turnover of the Company or Rs. 100 crores, whichever is lower; or
  - d. availing or rendering of any services, directly or through appointment of agent, exceeding 10% of the Annual Turnover of the Company or Rs. 50 crores, whichever is lower; or
  - e. appointment to any office or place of profit in the Company, its subsidiary company or Associate Company at a monthly remuneration exceeding two and half lakh rupees; or
  - f. underwriting the subscription of any securities or derivatives hereof, of the Company exceeding 1% of the Net Worth.
- 3.20 “Transaction” with a Related Party shall be construed to include any contract or arrangement or transaction, whether single or as a group of transactions and for the purpose of applying thresholds laid down in this Policy, it shall include previous transactions during the financial year with the Related Party
- 3.21 “Whole-time Director”: means a director in the whole-time employment of the Company

**FAG Bearings India Limited****INTERPRETATION:**

Any term not defined in the Policy shall have the same meaning assigned to it under the Companies Act, 2013 or the Listing Agreements / SEBI Guidelines or relevant Accounting Standards and preference should be given to the meaning assigned to such term under the Companies Act, 2013 and the Listing Agreements as compared to other source of interpretation.

The Policy has been framed to maintain highest standard of corporate governance and therefore interpretation of any matter in this Policy should be consistent with the objectives for introducing such requirements in the Companies Act, 2013 and the Listing Agreements.

**4. RELATED PARTY TRANSACTIONS POLICY****4.1 Identification of 'Related Party'**

Every Director and KMP is responsible to declare/ disclose to the Company immediately upon any change in the status of his/ her Interest or Concern in any person or entity, that may cause him to be regarded as Related Party of the Company in accordance with this Policy, on account of his being director or KMP of the Company. Such declaration shall include disclosure of his (and his relative's) Concern or Interest in any company or companies or bodies corporate, firms or Association of Persons, which shall include the shareholding, directorship, membership, partnership, etc.

The Company Secretary shall identify other persons or entities that would be regarded as Related Parties on account of their relationship as per point number 3.16 of this Policy on a quarterly basis based on the information available with him or after making enquiries as may be necessary.

The Company Secretary shall prepare a comprehensive list of Related Parties based on the information received from Director, KMP and other persons or entities identified by him. Such list shall be updated on a quarterly basis, or more frequently should the need arise, and circulated to all the persons having authority to carry out any Transaction so that the Policy can be adhered to.

The Audit Committee shall determine the procedure to be followed for declaration as well as compilation and circulation of the comprehensive list of Related Parties.

**4.2 Identification of potential 'Related Party Transaction'**

The Company will set an appropriate mechanism within the organisation to assess and identify business transactions / potential transactions which could be considered or categorised as:

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- a. Related Party Transactions;
- b. Specified Related Party Transactions;
- c. Material Related Party Transactions;
- d. Transactions in the ordinary course of business which are not on arm's length basis; and
- e. Transactions which are not in the ordinary course of business.

**4.3 Policy on Dealing with Related Party Transactions****4.3.1 Approval of Audit Committee:**

**All Related Party Transactions shall require prior approval of the Audit Committee** except transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval. However, the Audit Committee may grant omnibus approval for 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 omnibus approval in line with this Policy and such approval shall be applicable in respect of transactions which are repetitive in nature
- b. The Audit Committee shall satisfy itself on the need for such omnibus approval and that such approval is in the interest of the Company
- c. Such omnibus approval shall specify:
  - i the name of the Related Party, nature of Transaction, period of Transaction, maximum amount of Transaction that can be entered into;
  - ii the indicative base price / current contracted price and the formula for variation in the price, if any, (for example, +/- 5%); and
  - iii such other conditions as the Audit Committee may deem fit[Where the need for Related Party Transactions cannot be foreseen and the details mentioned above are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 (one) crore per transaction.]
- d. Audit Committee shall review, at least on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given
- e. Such omnibus approval shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.
- f. Related Party Transactions, approved by the Audit Committee under its omnibus approval, will be presented to and be noted by the Board.

**4.3.2 Approval of Board of Directors of the Company**

Section 188 of the Companies Act, 2013 specifies certain transactions which are as follows:

- (a) sale, purchase or supply of any goods or materials;
- (b) selling or otherwise disposing of, or buying, property of any kind;

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- (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**<sup>1</sup> in the company, its subsidiary company or associate company; and
- (g) underwriting the subscription of any securities or derivatives thereof, of the company:

If the transactions mentioned above are in the ordinary course of business and at arm's length, approval of Board of Directors of the Company will not be required; nevertheless, every contract or arrangement in respect of such transactions shall be referred to in the Board's report to the shareholders along with justification for entering into such contract or arrangement. However, if any of the transactions is **not in the ordinary course of business** or is in the ordinary course of business but **not at arm's length**, then approval of the Board of Directors will be required by way of resolution passed at a meeting of the Board (and shareholders, in line with paragraph 4.3.3, as the case may be) and also subject to the following conditions:

The agenda of the board meeting at which the resolution is proposed to be moved shall disclose:

- (a) the name of the Related Party and the 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) any advance paid or received for the contract or arrangement, if any;
- (e) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- (f) 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
- (g) any other information relevant or important for the board to take a decision on the proposed transaction.

Where any director is interested in any contract or arrangement with a Related Party, such director shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement.

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<sup>1</sup> "office or place of profit" means any office or place-

- (i) 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;
- (ii) 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

**FAG Bearings India Limited****Information that may be sought by the Audit Committee / Board of Directors**

While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review the following documents or seek the following information from the management in order to determine if the Transaction is in the ordinary course of business and/or at Arm's Length or not:

- i. Nature of the Transaction i.e. details of goods or property to be acquired / transferred or services to be rendered / availed – including description of functions to be performed, risks to be assumed and assets to be employed under the proposed Transaction;
- ii. Key terms (such as price and other commercial compensation contemplated under the arrangement) of the proposed Transaction, including value and quantum;
- iii. Key covenants (non-commercial) as per the draft of the proposed agreement/ contract to be entered into for such Transaction;
- iv. Special terms covered / to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite Transaction;
- v. Benchmarking information that may have a bearing on the Arm's Length basis analysis, such as:
  - a. market analysis, research report, industry trends, business strategies, financial forecasts, etc.;
  - b. third party comparables, valuation reports, price publications including stock exchange and commodity market quotations;
  - c. management assessment of pricing terms and business justification for the proposed transaction;
  - d. comparative analysis, if any, of other such Transaction entered into by the Company.

**4.3.3 Approval of the Shareholders of the Company**

All **Material Related Party Transactions** will require prior approval of the shareholders of the Company by way of a special resolution and the Related Parties shall abstain from voting on such resolution, irrespective of whether or not such Related Parties are parties to a particular transaction. However, Transactions entered into between a holding company and its wholly owned subsidiary – even if they are Material Related Party Transactions – will not require prior approval of the shareholders if the accounts of the wholly owned subsidiary are consolidated with the holding company and placed before the shareholders at the general meeting for approval.

All **Specified Related Party Transactions** (i.e., Transactions that are not in the ordinary course of business of the Company or which are in the ordinary course of business but not at arm's length) will require

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prior approval of the shareholders of the Company by way of a special resolution and the Related Parties shall abstain from voting on such resolution, irrespective of whether or not such Related Parties are parties to a particular transaction.

**4.4 Prior Period Contracts, Arrangements & Agreements**

Contracts that had been entered into by the Company, after complying with the provisions of Section 297 of the Companies Act, 1956, which had already come into effect before the commencement of Section 188 of the Companies Act, 2013, will not require fresh approval till the expiry of the original term of such contracts. Thus, if any modification in such contract is made on or after 11st April, 2014, the requirements under section 188 will have to be complied with to the extent they are relevant.

**4.5 Dealing with Related Party Transactions - not in line with this Policy**

4.5.1 In the event the Company becomes aware of a Transaction with a Related Party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit 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 Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee under this Policy and failure of the internal control systems, and shall take any such action it deems appropriate.

4.5.2 In any case, where the Audit Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the Transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the Related Party etc. In connection with any review/approval of a Related Party Transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

**5. IMPLEMENTATION**

This Policy shall be deemed to have come into force from October 1, 2014 and shall remain in force unless amended or repealed.

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The Management of the Company shall determine the procedure to be followed in order to comply with the Policy and the same will be communicated to all concerned employees and other persons concerned with the Company.

**6. DISCLOSURE OF POLICY****Board's Report:**

Every contract or arrangement entered with Related Parties to which Sub section (1) of Section 188 of the Companies Act 2013 is applicable shall be referred to in the Board's Report to the shareholders along with the justification for entering into such contract or arrangements.

**Quarterly Report on Corporate Governance:**

Details of all Material Related Party Transactions shall be disclosed quarterly along with the compliance report on corporate governance.

**Company's Website:**

The Company shall disclose this Policy on its website and a web link thereto shall be provided in the Annual Report.

**7. AMENDMENTS****7.1 Statutory Updates**

This Policy shall be considered as updated automatically, without any formal approval, to the extent it needs to be aligned with any change in law. An update thereon would be reported to the Audit Committee and Board of Directors.

**7.2 Other updates**

All major procedural updates, shall be effective only, if those are carried out after the review and approval of the Board of Directors through Audit Committee.

**8. OTHER NOTES**

8.1 Applicability of procedural requirement will be determined at the time of entering into a contract / arrangement.

8.2 During pendency / duration of a contact or arrangement, if an unrelated party becomes, Related Party, this will be presumed merely a 'Change in Circumstances' and Transactions will continue to be considered as if they are with unrelated party until and unless there is any change in the terms and conditions of the respective contract / arrangement governing such Transaction.