



RAJ RAYON INDUSTRIES LIMITED

(A Government Recognised Star Export House)



AN ISO 9001 : 2008 CERTIFIED COMPANY

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CIN NO. : L17120DN1993PLC000368

POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS

I PREFACE:

The Company has always been committed to good Corporate Governance practices including matters relating to Related Party Transactions. 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. An effort is always made to have arms length transactions with Related Parties.

As prescribed under Companies Act, 2013 read with the Rules framed there under and Clause 49 of the Listing Agreement (as amended by SEBI Circular dated 17th April, 2014 and 15th September, 2014), the Board of Directors of the company has adopted the following policy and procedure with regard to Related Party Transactions to be in compliance with the same. The said policy will be effective from 01st October, 2014 onwards.

II OBJECTIVE/ SCOPE:

The objective of this Policy is to identify:

- (a) the materiality thresholds for related party transactions .
- (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.

III DEFINITIONS:

- 1) **Act:** shall mean the Companies Act 2013 and the Rules framed thereunder, including any modifications, amendments, clarifications, circulars or re-enactment thereof.
- 2) **Arm's length basis:** means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

3) **Associate Company:** means any other company, 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 company.

Explanation—For the purposes of this clause, “significant influence” means Control of at least twenty per cent of total share capital, or of business decisions under an agreement.

4) “**Control**” has the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

5) **Key Managerial Person:** “Key Managerial Personnel”, in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the Company Secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer; and
- (v) such other officer as may be prescribed.

6) **Material Related Party Transaction:** means a transaction with a related party if the transaction/ transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company.

7) **Related Party Transaction:** “Related Party Transaction” is a transfer of any resources, services or obligations between the 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.

8) **Related party**

As per Companies Act, 2013 and Rules made thereunder

“**Related party**”, under Section 2(76) of Companies Act, 2013 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 or holds along with his relatives, more than two per cent of its paid-up share capital;

(vi) 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;

(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;

Further as per the Companies (Specification of definition details) Rules, 2014, a Director or Key Managerial Personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.

Related party as per Clause 49 of the Listing Agreement

Under Clause 49 of the Listing Agreement “A ‘related party” is a person or entity that is related to the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, directly or indirectly, in making financial and/or operating decisions and includes the following:

1. A person or a close member of that person’s family is related to a company if that person:

a. is a related party under Section 2(76) of the Companies Act, 2013; or

b. has control or joint control or significant influence over the company; or

c. is a key management personnel of the company or of a parent of the company; or

2. An entity is related to a company if any of the following conditions applies:

a. The entity is a related party under Section 2(76) of the Companies Act, 2013; or

b. The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); or

c. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); or

d. Both entities are joint ventures of the same third party; or

e. One entity is a joint venture of a third entity and the other entity is an associate of the third entity; or

f. The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company; or

g. The entity is controlled or jointly controlled by a person identified in (1).

h. A person identified in (1)(b) has significant influence over the entity (or of a parent of the entity);

Explanation: For the purpose of Clause 49(V) and Clause VII(B), the term “control” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

9) **Relative:** “Relative” with reference to any person, means anyone who is related to another, if –

(i) they are members of a Hindu Undivided Family;

(ii) they are husband and wife; or

(iii) one person is related to the other in such manner as may be prescribed.

IV MATERIALITY THRESHOLDS:

As per Clause 49 of the Listing Agreement, a company requires to provide materiality thresholds for transactions beyond which the shareholders’ approval will be required by way of a special resolution. The Company has fixed its materiality threshold at the level prescribed under Clause 49 (VII) (C) of the Listing Agreement.

Which means a transaction with a related party if the transaction/ transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company.

Section 188 of Companies Act, 2013 and Rules made thereunder, prescribe that Company’s having paid up capital of ten crores or more will require prior approval of the shareholders by way of special resolution, which are not on arm length basis for all related party transactions as mentioned below:

Nature of Transaction:

1 Contracts or arrangements with regard to sale, purchase or supply of any goods or materials

2 arrangements with regard to appointment of agents for sale, purchase of any goods, materials, services or property

3 contracts or arrangements with regard to leasing of property of any kind

4 contracts or arrangements with regard to availing or rendering of any services directly or through appointment of agents

5 appointments to any office or place of profit in the company, its subsidiary company or associate company

6 Remuneration for underwriting the subscription of any securities or derivatives thereof of the company.

V PROCEDURE FOR DEALING WITH RELATED PARTY TRANSACTION:

i) Disclosure of Interest by the Directors/KMP:

All Directors/KMP of the Company shall at the beginning of the financial year provide information by way of written notice to the company regarding his concern or interest in the entity with specific concern to parties which may be considered as related party with respect to the Company and shall also provide the list of relatives which are regarded as related party as per this policy.

They are also required to provide the information regarding their appointment with other entity during the financial year which may be regarded as related party according to this policy.

ii) Identification of Transaction with related Parties:

Each director and Key Managerial Personnel is responsible for providing notice to the Company of any potential Related Party Transaction where he may be considered interested. The Audit Committee will determine whether a transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

The Directors and KMPs will ensure that their notice of any potential Related Party Transaction is delivered well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction and approval is given.

iii) Review and approval of Related Party Transaction:

a) Audit Committee

All the transactions which are identified by the Audit Committee as related party transactions should be pre-approved by the Audit Committee before entering into such transaction. The details of all related party Transactions should be placed in the subsequent meeting of the Audit Committee.

The committee should consider the following factors while giving approval for related party transactions: -

- Name of party and details explaining nature of relationship
- Nature of transaction and material terms thereof including the value, if any;
- the manner of determining the pricing to ascertain whether the same is on arm's length
- any advance paid or received for the contract
- Business rationale for entering into such transaction

Any member of the Committee who has an interest in any Related Party Transaction will not take part and abstain himself from discussion and voting on the approval of the Related Party Transaction.

If the committee determines that the a related party transaction is (i) a Material related party transaction or (ii) Transactions are not in the ordinary course of business or not at the arm's length price, the audit committee shall place the matter before the board for obtaining its approval.

The Committee shall also place the all the approved related party transactions to the Board for its consideration.

b) Board of Directors

Where approval of Board of Directors is required for any related party transaction or if the Board in any case elects to reviews any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then 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.

As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said section and which are not in ordinary course of business and at arm's length basis are to be placed before the Board for its approval. The agenda of the Board Meeting should include all the necessary details about the contract as prescribed under Companies (meeting of Board and its Powers) Rules, 2014.

Any member of the Board who has any interest in any Related Party Transaction will not take part and abstain himself from discussion and voting on the approval of the Related Party Transaction.

c) Shareholder approval

In case Board refers a related party transaction for seeking approval of the shareholders as per the provisions of Companies Act 2013 or Clause 49 of Listing Agreement i.e. which exceeds the materiality thresholds, if any Director or Member of company is a

related party as per this policy, such Director or Member of the company shall not vote on resolution passed for approving such related party transaction.

Also the explanatory statement to be annexed to the notice of such general meeting, shall disclose all such details/ information about the contract as are prescribed under the Companies (Meeting of Board and its Powers) Rules, 2014.

iv. Transactions which do not require approval

Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of Audit Committee:

(a) Any transaction involving the providing of compensation to a director or Key Managerial Personnel in connection with his duties to the Company including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.

(b) Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.

v) If a Related Party Transaction will be ongoing/proposed to be entered into by the company, the Committee may grant omnibus approval for ongoing dealings/proposed related party transactions. Such omnibus approval shall specify:

a) the name/s of the related party, nature of transactions, period of transaction, maximum amount of transaction that can be entered into,

b) the indicative base price/current contracted price and the formula for variation in the price if any and such other conditions as the Audit Committee may deem fit.

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

The Audit Committee shall lay down the guidelines for granting omnibus approval in line with the policy on Related Party Transactions of the Company. Such approval shall be applicable in respect of transactions which are repetitive in nature and only for one year.

VI DISCLOSURES:

- i. The details of Related Party Transactions during each quarter shall be reported in the Audit Committee and Board Meetings.
- ii. The Board/ Director's Report shall provide details of Related Party Transactions as required under the Act.
- iii. Details of all Material Transactions with related parties shall be disclosed quarterly along with the compliance report on corporate governance.
- iv. The Company shall disclose the Policy on its dealing with Related Party Transactions on its website and also in the Annual Report.

VII REVIEW:

The Audit Committee shall periodically review this Policy and may recommend amendments to this Policy from time to time as it deems appropriate as per the Companies Act and Listing Agreement.

For Raj Rayon Industries Limited

Place: Mumbai
Dated: 14th November, 2014

Rajkumari Kanodia
Chairperson & Director