



KIFS Housing Finance Limited

**RELATED PARTY TRANSACTIONS
POLICY**

Version	Prepared by	Reviewed by	Approved by	Approved Date
1.0	Swarnpal Singh Bais	Board	Board	27th April, 2017
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1. Preamble

In terms of Section 188 of the Companies Act, 2013 read with rules made thereunder, the Board of Directors (the “Board”) of KIFS Housing Finance Limited (the “Company” or “KHFL”), have basis the recommendations of the Audit Committee Members framed and adopted the Related Party Transaction Policy [“Policy” or “this Policy”] which defines and lays down the procedures with regard to Related Party Transactions. This policy aims to regulate transactions between the Company and its Related Parties, based on the laws and regulations applicable to the Company.

2. Purpose and Objective

This Policy is framed as per the requirement of Section 188 in pursuance of Regulation 23 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) and other applicable provisions, has adopted Related Party Transaction Policy (“this policy”) to regulate the transactions between the Company and its Related Parties. . The objective of this Policy is to regulate transactions with related parties and ensure transparency between them. It sets out the materiality thresholds for related party transactions and the manner of dealing with such transactions in accordance with the provisions of Companies Act, 2013. Such transactions are appropriate only if they are in the best interest of the Company and its Members.

3. Definitions

“**Applicable Law**” includes (a) the Companies Act, 2013 and rules made thereunder; (b) any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.

“**Act**” means the Companies Act, 2013 and rules made thereunder and includes any amendment(s)/ modification(s) thereof.

“**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.*

“**Associate Company**” 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.

The applicable Accounting Standard 18 pertaining to Related Party Disclosures (AS 18) notified by the Companies (Accounting Standards) Rules, 2006, defines an associate 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.*

“**Audit Committee/Committee**” means Committee of Board of Directors of the Company constituted as per the provisions of Companies Act, 2013.

“Board” means Board of Directors of the Company.

“Compliance Officer” means the Company Secretary of the Company or such other compliance officer as identified by the Board and/or Management of the Company.

“Key Managerial Personnel” (as defined in Section 2(51) of the Companies Act, 2013), in relation to the Company, means –

- i. Chief Executive Officer or the Managing Director or the Manager
- ii. Company Secretary
- iii. Whole Time Director
- iv. Chief Financial Officer and
- v. Such other officer as may be prescribed by the Government.

“Policy” means Related Party Transaction Policy.

“Material Related Party Transaction(s)” means transaction/transactions with the related party 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.”

“Related Party” In relation to the Company, means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the 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 a related party”

“Relative” as per section 2 (77) of the Companies Act, 2013, with reference to any person, shall be deemed to be relative of another, if he or she is related to another in the following manner, namely:-

- i. Father, includes step-father.
- ii. Mother, includes step-mother.
- iii. Son, includes step-son
- iv. Son’s wife.
- v. Daughter.
- vi. Daughter’s husband.
- vii. Brother, includes step-brother.
- viii. Sister, includes step-sister.
- ix. Are members of a Hindu Undivided Family
- x. They are Husband and wife.

“Related Party Transaction” As per SEBI (LODR), “related party transaction” means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.

As per section 188(1) of Act related party transaction will include following specific transactions:

- i) sale, purchase or supply of any goods or materials;
- ii) selling or otherwise disposing of, or buying, property of any kind;
- iii) leasing of property of any kind;
- iv) availing or rendering of any services;
- v) appointment of any agent for purchase or sale of goods, materials, services or property;

“Transaction” means any transfer of resources, services or obligations between two or more parties.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013 or any other applicable law or regulation(s).

4. Terms of the Policy

All Related Party Transactions will be subject to following approval matrix, as may be applicable:

Provisions	Ceiling on the Amount	Approval Required		
		Audit Committee	Board of Directors	Shareholders (Ordinary Resolution)
Transactions in the <i>ordinary course of business</i> and on <i>arm's length basis</i>	up to 10% of the annual consolidated turnover of the Company	√	-	-
	<i>In excess of above limits</i>	√	√	√ (All related parties to abstain from voting.)
Transactions either not in the <i>ordinary course of business</i> or <i>arm's length basis</i>				
Sale, purchase or supply of any goods or materials, directly or through appointment of agent.		√	√	Exceeding 10% of the turnover. <i>Note: Related Parties that are parties to the contract shall abstain from voting.</i>
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent.		√	√	Exceeding 10% of the net worth. <i>Note: Related Parties that are parties to the contract shall abstain from voting.</i>
Leasing of property of any kind.		√	√	Exceeding 10% of the turnover or 10% of the net worth. <i>Note: Related Parties that are parties to the contract shall abstain from voting.</i>
Availing or rendering of any services, directly or through appointment of agent.		√	√	Exceeding 10% of the turnover. <i>Note: Related Parties that are parties to the contract shall abstain from voting.</i>
Appointment of any related party to any office or place of profit in		√	√	Monthly remuneration exceeding two and half lakh rupees

the Company, its subsidiary company or associate company.				<i>Note: Related Parties that are parties to the contract shall abstain from voting.</i>
underwriting the subscription of any securities or derivatives thereof, of the Company		√	√	Remuneration exceeding 1% of net worth <i>Note: Related Parties that are parties to the contract shall abstain from voting.</i>
any other transaction with related parties, other than those covered above, resulting in transfer of resources, obligations or services		√	For Transactions that are not on arm's length basis.	Exceeding 10% of the annual consolidated turnover of the Company <i>Note: All related parties to abstain from voting.</i>

5. Procedure

1. Identification of Related Parties and Related Party Transactions

The Compliance Officer shall:

- a. Identify and keep on record the Company's Related Parties, along with their personal/company details.
- b. Update the record of Related Parties whenever necessary and shall be reviewed at least once a year, as on 1st April every year.
- c. Furnish on a quarterly basis to the concerned departments viz. Accounts, Operations, Administration and such other concerned departments at Corporate Office and branches, who are responsible for entering into contracts/ arrangements/ agreements with entities for and on behalf of the Company, and circulate the list of Related Parties to all such employees of the Company along with the approval thresholds for entering into transactions with such enlisted Related Parties.
- d. Place the record of Related Parties before the Audit Committee.

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

(i) The following illustrative tests may be used by the Audit Committee for ascertaining arm's length nature of contracts / arrangements that may be entered into by the Company with related parties, or any modification, variation, extension or termination thereof: -

- a. The contracts/ arrangements are entered into with Related Parties, are at such prices/ discounts/ premiums and on such terms which are offered to unrelated parties of similar category/ profile.
- b. The contracts/ arrangements have been commercially negotiated.

c. The pricing is arrived at as per the rule/guidelines that may be issued by or acceptable for the purpose of NHB/ Ministry of Corporate Affairs, Government of India/ Income Tax Act, 1961, as applicable to any of the contract/ arrangements contemplated under the Companies Act, 2013, Rules framed thereunder.

d. The terms of contract/arrangement other than pricing are generally on a basis similar to those as may be applicable for similar category of goods and services or similar category/ profile of counterparties.

e. Such other criteria as may be issued under Applicable Law.

(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 Rule 10B 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 Audit Committee shall be entitled to rely on professional opinion or representation from the counter party in this regard.

(iv) Further, the Company shall also obtain, if so required by the Audit Committee, 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. Although the term “Arm's Length Basis” has been defined under Section 188 of the Companies Act, 2013, what transactions would be considered to be in the “ordinary course of business” has not been specified under the Companies Act, 2013. In the case of *Seksaria Biswan Sugar Factory Ltd. v. Commissioner of Income Tax, Bombay 1*, the Bombay High Court, in relation to what constitutes ‘ordinary course of business’, observed that “it must be found as to whether the particular act has any connection with the normal business that the company is carrying on and whether it is so related to the business of the company that it can be considered to be performed in the ordinary course of the business of that company.”

A. Therefore, in order to determine whether a transaction is within the ordinary course of business or not, some of the principles that may be adopted to assess are as follows:

a) whether the transaction is in line with the usual transactions, customs and practices undertaken by the company to conduct its business operations and activities,

b) whether it is permitted by the Memorandum and Articles of Association of the company; and

c) whether the transaction is such that it is required to be undertaken in order to conduct the routine or usual transactions of a company.

B. Any of the following conditions are met:

a. The transaction, including, but not limited to sale or purchase of goods or property, or acquiring or providing of services, conveying or accepting leases, transfer of any resources, hiring of any executives or other staff, providing or availing of any guarantees or collaterals, or receiving or providing any financial assistance, or issue, transfer, acquisition of any securities, is in the normal routine of the Company's business; or

b. The transaction is in the nature of reimbursements, received or provided, from or to any related party, whether with or without any mark-up towards overheads, and is considered to be congenial for collective procurement or use of any facilities, resources, assets or services and subsequent allocation of the costs or revenues thereof to such related party in an appropriate manner; and

C. The transaction is not

a. an exceptional or extra ordinary activity as per applicable accounting standards or financial reporting requirements;

b. any sale or disposal or any undertaking of the Company, as defined in explanation to clause (a) of sub-section (1) of section 180 of Companies Act, 2013.

i. The Company may 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.

ii. 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.

4. Procedure for approval and review of Related Party Transactions

(i) Subject to the threshold limits specified below, all Related Party Transactions or changes therein must be referred for prior approval by the Audit Committee in accordance with this Policy.

(ii) The threshold limits for approvals will be as follows:

a. The transactions, for which omnibus approval of the Audit Committee has already been sought, will not require prior approval of the Audit Committee for each transaction entered into pursuant to the same.

b. Transactions above the value of Rs. 1 Crore per transaction may be granted omnibus approval by Audit Committee subject to criteria specified under Clause 5 below. Further, such transactions shall be reported to the Audit Committee on quarterly basis.

c. All Related Parties Transactions other than those falling under Points (i) and (ii) above for which no omnibus approval has been accorded, shall require prior approval of Audit Committee.

d. Transactions between the Company and its wholly owned subsidiary companies will be governed by criteria above unless exempted under the Applicable Law.

(iii) Related Party Transactions that are not in ordinary course of business but on arm's length basis may be approved by Audit Committee. Where such Related Party Transactions fall under Section 188 (1) of the Act, the Audit Committee shall recommend the transaction for approval of the Board.

(iv) Related Party Transactions that are not on arm's length basis, irrespective of whether those are covered under Section 188 of the Act or not, may be placed by the Audit Committee, along with its recommendations, to the Board for appropriate action.

(v) All relevant facts pertaining to a Related Party Transaction shall be placed with the Audit Committee, inclusively:

- 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. 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 Committee to take a decision on the proposed transaction.

(vi) 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.

(vii) In determining whether approval can be accorded to a Related Party Transaction, the Audit Committee shall consider the following factors:

- a. whether the Related Party Transaction 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 adequate reasons of business expediency for the Company to enter into the Related Party Transaction, after comparing alternatives available, , 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.

(viii) 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.

(ix) If the Related Party Transaction needs to be approved at a general meeting of the shareholders by way of a resolution pursuant to Applicable Law, the Board shall ensure that the same be put up for approval by the shareholders of the Company.

(x) Where, owing to exigencies, Related Party transactions have been entered into without being placed for prior approval by the Audit Committee, reasoned explanation for the same must be received from the contracting employees to the satisfaction of the Audit Committee. The Audit Committee may ratify such transactions, or may put forth the transactions before the Board along with its recommendations, and the Board may either ratify such transactions or seek to avoid the same. The Audit Committee recommendations may also include appropriate measures against the contract employee authorising such transactions without prior approval of the Audit Committee.

(xi) If approval of the Board / general meeting, where applicable, for entering into a Related Party Transaction is not feasible, then the Related Party Transaction shall be ratified by the the Board / general meeting, if required, within 3 months of entering in the Related Party Transaction.

(xii) In any case where either the Audit Committee /Board / a general meeting determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee or Board or the general meeting, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification. In connection with any review of a Related Party Transaction, the Audit Committee / Board has authority to modify or waive any procedural requirements of this Policy.

(xiii) No member of the Audit Committee/ Board shall participate in the review or approval of any Related Party Transaction in which such member is interested, except that the director/ Key Managerial Personnel shall provide all material information concerning the Related Party Transaction to the Audit Committee / Board.

(xiv) If a Related Party Transaction is of ongoing nature, the Board / Audit Committee may establish guidelines for the Company's management to follow in its ongoing dealings with the Related Party. Thereafter, the Board, on at least an annual basis, shall review and assess on-going relationships with the Related Party to ensure that they are in compliance with the Act and rules made thereunder and this Policy and that the Related Party Transaction remains appropriate.

(xv) Nothing in this Policy shall override any provisions of law made in respect of any matter stated in this Policy.

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, Sub Lease of Office Premises or Office Sharing Agreement with Associate Companies or any other transactions or arrangements as it may deem appropriate, being proposed to be entered into Arms Length Basis), the Audit Committee may grant an omnibus approval for such Related Party Transactions proposed to be entered into by the Company frequency, volume and value.

6. Disclosures

Each director who is, directly or indirectly, concerned or interested in any way in any transaction with the Related Party shall disclose all material information and the nature of his interest in the transaction to the Committee or Board of Directors.

7. Ratification

If any contract or arrangement is entered into by a director or any other employee of the Company, without obtaining the consent of the Board or approval by a resolution in the general meeting as per the provisions of Section 188 (1) of the Companies Act, 2013 and if it is not ratified by the Board and/or by the shareholders at a meeting, as the case may be, 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.

However, the above provisions for ratification shall not apply to the Material Related Party Transactions.

8. Exclusion of Policy

This policy shall not be applicable to following related party transactions:

- a. Transactions entered into with Related Parties in ordinary course of business and on arm's length basis;
- b. Transactions entered into between Holding Company and Wholly Owned Subsidiary Company whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.