



**INDOCO REMEDIES LIMITED**

**POLICY ON MATERIALITY OF  
RELATED PARTY TRANSACTIONS  
AND ON DEALING WITH  
RELATED PARTY TRANSACTIONS**



## **I. 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 Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Regulation 23”) and as amended from time to time, Indoco Remedies Limited (Company) has formulated guidelines for identification of related parties and the proper conduct and documentation of all related party transactions.

Also, Regulation 23(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 requires the company to formulate a policy on materiality of related party transactions and dealing with related party transactions.

In the light of the above, the Company has framed this Policy on Materiality and Dealing with Related Party Transactions (“Policy”). This Policy has been adopted by the Board of Directors of the Company based on recommendations of the Audit Committee.

## **II. OBJECTIVE OF THE POLICY**

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, Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and any other laws and regulations as may be applicable to the Company.

## **III. DEFINITIONS**

1. “Act” means the Companies Act, 2013 and rules made there under as amended from time to time.
2. “SEBI Listing Regulations” means SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended.



3. “Regulation 23” means the Regulation no. 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and as amended from time to time.
4. “Company” means Indoco Remedies Limited
5. “Material Modification” shall mean an amendment to the terms of a transaction / agreement / commitment with / to a Related Party, the effect of which will be an increase over the approved limit for a transaction, by an amount more than Rs.10 (Ten) Crore in a financial year or 20% (twenty per cent) of the approved limit, whichever is higher.

Provided that material modifications shall be deemed to include the following, without application of the above criteria:

- a. In case of a loan or deposit or any other means of funding, any deviation in the objects or purposes for which the loan or deposit was given or funding was made or received;
- b. In case of any other transaction or agreement, any amendment which will have an effect of:
  - i. deferring the consummation of such transaction or agreement by a period beyond one year from the existing approved term / period;  
or
  - ii. renewing or extending the term of the transaction or agreement for a period exceeding one year of its existing approved term / period.

*Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 or any other applicable law or regulation and as amended from time to time.*



#### **IV. DETERMINATION OF “ORDINARY COURSE OF BUSINESS” AND “ARMS LENGTH”**

##### **1. ORDINARY COURSE OF BUSINESS**

While determining “**ordinary course of business**” the Board and the Audit Committee will refer to the Guidelines issued by Institute of Chartered Accountants of India (<https://kb.icai.org/pdfs/PDFFile5b276aa5914f66.84936033.pdf>), the principles laid down by various courts and the provisions of the Companies Act and the Rules framed there under. The ordinary course of business broadly means the usual transactions, customs and practices undertaken by the Company to conduct its business operations and activities and includes all such activities which the company can undertake as per Memorandum & Articles of Association.

In its guidance, the Institute of Chartered Accountants of India has included the following examples as transactions considered outside an entity’s normal (or ordinary) course of business:

- Complex equity transactions, such as corporate restructurings or acquisitions.
- Transactions with offshore entities in jurisdictions with weak corporate laws.
- The leasing of premises or the rendering of management services by an entity to another party if no consideration is exchanged.
- Sales transactions with unusually large discounts or returns.
- Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- Transactions under contracts whose terms are changed before expiry.

To decide whether an activity which is carried on by the business is in the ‘ordinary course of business’, the following factors may also be considered:

- Whether the activity is covered in the objects clause of the Memorandum of Association
- Whether the activity is in furtherance of the business
- Whether the activity is normal or otherwise routine for the particular business (i.e. activities like advertising, staff training, etc.)
- Whether the activity is repetitive/frequent



- Whether the income, if any, earned from such activity/transaction is treated as business income in the company's books of account
- Whether the transactions are common in the particular industry
- Whether there is any historical practice to conduct such activities
- The Financial scale of the activity with regard to the operations of the business
- Revenue generated by activity
- Resources committed to the activity

The above list is not exhaustive.

## 2. ARMS LENGTH

The Companies Act's Section 188 (1) sub clause (b) to the explanation states – Arm's length transaction means a transaction between two related parties that is conducted as if they were unrelated.

The Arm's Length Pricing (ALP) is the condition or the fact that the parties to a Related Party Transaction (RPT) are independent (un-related) and on an equal footing from one or more of the following aspects namely quality, realization, commercial terms etc. Such a transaction is known as an "arm's-length transaction".

Where it is not possible to obtain comparable transaction information because of variations in commercial or technical terms, appropriate adjustments should be made to the best available comparable transactions to arrive at an arm's length price and terms for the related party transaction involved. Immaterial variations between the pricing and terms of related party transactions with comparative transactions will be overlooked.

The Company may also adopt any other reasonable approach or methodology to demonstrate ALP for the specified RPT identified by them. For example: in case the Company is not doing a similar transaction with any unrelated Party, the terms between two unrelated parties of similar standing for similar transactions, will form the Arm's Length benchmark.

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 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.
  - d) 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.

## **V. DETERMINATION OF MATERIALITY OF RELATED PARTY TRANSACTIONS**

Material Related Party Transactions will be identified in accordance with Regulation 23 of SEBI Listing Regulations as amended from time to time.

## **VI. MANNER OF DEALING WITH RELATED PARTY TRANSACTION**

### **A. Identification of Related Parties and Related Party Transactions**

1. Related parties shall be identified under Companies Act and the Listing Regulations, as amended from time to time and regularly verified.
2. The Secretarial Department of the Company shall request from all the Directors and Key Managerial Personnel information that may be required for inclusion in the list of Related Parties of the Company.
3. Each Director and Key Managerial Personnel of the Company shall be required to inform the Secretarial Department of the Company of any change in the information previously provided on the list of Related Parties of the Company.
4. 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 request.
5. The list of identified Related Parties along with approved threshold will be tagged and updated in the accounting system regularly and also periodically sent out to those of the staff of the Company that might be in the position to conduct or know of the possible conduct of Related Party Transactions.



## **B. Procedure for Approval of Related Party Transaction**

### **➤ Approval of the Audit Committee**

1. All related party transactions (and subsequent Material Modification) of the Company require prior approval of the Audit Committee.
2. A related party transaction to which the subsidiary of the Company is a party but the Company is not a party, shall require prior approval of the audit committee of the Company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual consolidated turnover, as per the last audited financial statements of the Company;
3. With effect from April 1, 2023, a related party transaction to which the subsidiary of the Company is a party but the Company is not a party, shall require prior approval of the audit committee of the Company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary;

### **4. Omnibus Approval**

- a. The Company may obtain Omnibus approval in case of RPTs of a recurring nature, the details of the RPT shall be submitted to the Audit Committee in the prescribed format to obtain its omnibus approval. The omnibus approval thus received shall be considered as prior approval for the respective/ classified RPT. This shall eliminate the need/ requirement for obtaining prior approval for such recurring RPT of similar nature. However, such RPTs will continue to be evaluated for propriety of arm's length and ordinary course of business.
- b. The Audit Committee of the Company may consider the below mentioned criteria for granting omnibus approval.
  - i. Frequency of the transactions, based on either the past record of similar transactions, or expected frequency during the current financial year;





- ii. Volumes of transactions undertaken with such Related Party. The maximum value of the transactions, per transaction or in aggregate, shall not exceed 10% of annual consolidated turnover of the Company as per its last audited financial statement.
  - iii. Projected growth rate in the business with the Related Party in the financial year for which omnibus approval is sought;
  - iv. Contractual terms offered by other parties for similar transaction
  - v. Adherence to any conditions on the contractual terms with such Related Parties, for instance, floor and cap on the pricing, credit terms, escalation in costs, quality checks etc.
- c. Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the business interest of the Company.
- d. Transaction of following nature will not be subject to the omnibus approval of the Audit Committee:
  - i. Transactions which are not at arm's length or not in the ordinary course of business
  - ii. Transactions which are not repetitive in nature
  - iii. Transactions exceeding materiality thresholds as laid down in this Policy
  - iv. Transactions in respect of selling or disposing of the undertaking of the company
  - v. Financial Transactions eg. Loan to related parties, Inter Corporate Deposits, subscriptions to bond, debenture or preference shares issued by the related parties, corporate guarantee given/received from related parties
  - vi. Any other transaction the Audit Committee may deem not fit for omnibus approval.
- e. Pursuant to Regulation 23(3) of the Listing Regulations, where the need for related party transaction cannot be foreseen and the details required to be disclosed as per SEBI Listing Regulations are not available, the Audit Committee may grant omnibus approval for such transactions, subject to their value not exceeding Rs.1 Crore (Rupees One Crore Only).



➤ *Approval of the Board of Directors of the Company*

1. As per the provisions of Section 188 of the Act, all kinds of related party transactions (and subsequent Material Modification) specified under the said Section and which are not in the ordinary course of business or not at arm's length basis, are placed before the Board for its approval.
2. In addition to the above, the following kinds of transactions (and subsequent Material Modification) with related parties are also placed before the Board for its approval:
  - i. 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;
  - ii. 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;
  - iii. Transactions which are in the ordinary course of business and at arm's length basis, but which as per Audit Committee requires Board approval
  - iv. Transactions meeting the materiality thresholds laid down in this Policy, which are intended to be placed before the shareholders for approval

➤ *Approval of the Shareholders of the Company*

1. All the transactions with related parties (and subsequent Material Modification) exceeding the materiality thresholds, laid down in this Policy, are placed before the shareholders for approval.
2. In addition to the above, all kinds of transactions (and subsequent Material Modification) specified under Section 188 of the Act which (a) are not at Arm's Length or not in the ordinary course of business; and (b) exceed the thresholds laid down in Companies (Meetings of Board and its Powers)



Rules, 2014 as amended from time to time are placed before the shareholders for its approval.

3. However, the requirement of shareholders' approval for Material Related Party Transactions shall not be applicable for the following cases:

- transactions in respect of a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code (IBC) 2016, subject to the event being disclosed to recognized stock exchange within one day of the resolution plan being approved.
- transactions entered into between the company and its wholly owned subsidiary whose accounts are consolidated with the company and placed before the shareholders at the general meeting for approval.
- transactions entered into between two wholly-owned subsidiaries of the company, whose accounts are consolidated with the company and placed before the shareholders at the general meeting for approval.

## **VII. TRANSACTIONS WHICH DO NOT REQUIRE APPROVAL**

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

1. 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.
2. 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.

## **VIII. RELATED PARTY TRANSACTIONS NOT APPROVED UNDER THIS POLICY**

1. 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.

2. 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 Board / general meeting, if required, within 3 months of entering in the Related Party Transaction.
3. 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.

## **IX. STANDARDS FOR REVIEW**

While approving/ ratifying/ recommending a Related Party Transaction, Audit Committee/ Board shall review and consider the following, in accordance with the standards set forth in this Policy:

- a. the Related Party's interest in the transaction;
- b. whether the transaction was undertaken in the ordinary course of business of the Company;
- c. whether the transaction with the Related Party is on at arms' length basis;
- d. the purpose of, and the potential benefits to the Company from the transaction;
- e. Whether there are any compelling business reasons for the Company to enter into the transaction;
- f. Whether the transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction;



- g. Whether the transaction would impair the independence of an otherwise Independent Director or Nominee Director;
- h. Whether the Company was notified about the transaction before its commencement and if not, why pre-approval was not sought for and whether subsequent ratification would be detrimental to the Company;
- i. Whether the transaction would present an improper conflict of interest, as per provisions of law, for any director or Key Managerial Personnel, taking into account the size of the transaction, the overall financial position of the Related Party, the direct or indirect nature of the Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Audit Committee / the Board deems relevant and appropriate.
- j. required statutory and public disclosure, if any; and
- k. any other information regarding the transaction or the Related Party in the context of the proposed transaction that would be material to the Audit Committee / Board / Shareholders, as applicable, in light of the circumstances of the particular transaction.

#### **X. REVIEW OF THE POLICY**

In case of any subsequent changes in the provisions of the Companies Act, 2013 or any other regulations, including the SEBI Listing Regulations, which makes any of the provisions in the Policy inconsistent with the Companies Act, 2013 or such other regulations, such provisions of the Companies Act, 2013 or such other regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.

This Policy shall be reviewed by the Audit Committee/Board at least once in every three years. Any changes or modification on the Policy as recommended by the Audit Committee would be presented for approval of the Board. The Board can from time to time authorise Directors to make changes in the Policy due to regulatory or legal requirement and such changes made to be brought to the attention of the Board at the first meeting following the amendment.