

RELATED PARTY TRANSACTIONS POLICY



Bharat Heavy Electricals Limited

8th March 2016

CONTENTS

1.0	INTRODUCTION	03
2.0	APPLICABILITY	03
3.0	SCOPE AND PURPOSE	03
4.0	DEFINITIONS	03
5.0	REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS	06
5.1	Board Level Audit Committee	06
5.2	Board of Directors	07
5.3	Shareholders	07
6.0	GENERAL	07
7.0	DISCLOSURES	08
8.0	LIMITATIONS	08
9.0	POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS	08
10.0	POLICY ON MATERIAL SUBSIDIARIES	08

1.0 INTRODUCTION:

The Companies Act, 2013 and the revised Clause 49 of Equity Listing Agreement (“Listing Agreement”) have laid down extensive requirements to be fulfilled in case of Related Party Transactions. Additionally, the revised Listing Agreement specifies that the Company is required to formulate a policy on materiality of related party transactions and also on dealing with Related Party Transactions. Therefore, the Company has adopted this Related Party Transaction Policy dealing with the identification, review and approval of Related Party Transactions.

2.0 APPLICABILITY:

This Policy shall be applicable to all Related Party Transactions between the Company and its Related Parties.

3.0 SCOPE AND PURPOSE:

The Policy has been framed to comply with the applicable provisions of Companies Act, 2013 and of the Listing Agreement entered into by the Company with the Stock Exchanges. Any subsequent amendment/modification in the applicable provisions of Companies Act, 2013 or the rules made thereunder or in the Listing Agreement in this regard shall be deemed to be automatically incorporated in this Policy.

4.0 DEFINITIONS:

“Act” shall mean the Companies Act 2013 and the Rules framed thereunder, including any modifications, amendments, clarifications, circulars or re-enactment thereof.

“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.

“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.

Explanation- For the purposes of this clause, “Significant Influence” means Control of at least twenty percent of total share capital, or of business decisions under an agreement.

“Board Level Audit Committee” or “Committee” means “Audit Committee” of the Board of Directors of the Company.

“Board of Directors” or “Board” means the collective body of the Directors of the Company.

“Company” means Bharat Heavy Electricals Limited

“Key Managerial Personnel” means Key Managerial Personnel of the Company in terms of the Companies Act, 2013 and the Rules made thereunder.

“Material Related Party Transactions”: a transaction with a related party shall be considered material 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.

“Policy” means Related Party Transactions Policy of the Company.

“Related Party” means a person or an entity:

- (i) which is a related party under Section 2 (76) of the Companies Act, 2013; or
 - (ii) which is a related party under the applicable accounting standards
- A. As per Section 2 (76) of the Companies Act 2013 and rules made thereunder, Related Party, 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 or his relative is a member or director;
 - (v) 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;
 - (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;
- (ix) such other person as may be prescribed

B. Related Parties under the applicable Accounting Standards are as follows:

- a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture;
- c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual;
- d) key management personnel and relatives of such personnel; and

- e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member of key management in common with the reporting enterprise.

Clause 10 of the aforesaid Accounting Standards, defines certain terms which are also pertinent for ascertaining related party relationships and the same are as follows

10.1	<i>Related party</i>	<i>Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions</i>
10.2	<i>Related party transaction</i>	<i>A transfer of resources or obligations between related parties regardless of whether or not a price is charged.</i>
10.3	<i>Control</i>	<i>(a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or (b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or (c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and/or operating policies of the enterprise</i>
10.4	<i>Significant Influence</i>	<i>Participation in the financial and/or operating policy decisions of an enterprise, but not control of those policies</i>
10.5	<i>An Associate</i>	<i>An enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party</i>
10.6	<i>A Joint Venture</i>	<i>A contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control</i>
10.7	<i>Joint Control</i>	<i>The contractually agreed sharing of power to govern the financial and operating policies of an economic activity so as to obtain benefits from it</i>

“Related Party Transactions”: Section 188 of the Companies Act, 2013 encompasses all contracts or arrangements with a Related Party with respect to:

- a. sale, purchase or supply of any goods or materials;
- b. selling or otherwise disposing of, or buying, property of any kind;
- 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 in the company, its subsidiary company or associate company; and
- g. underwriting the subscription of any securities or derivatives thereof, of the company;

As per Listing Agreement, Related Party Transaction is a transfer of resources, services or obligations between a company and a related party, regardless, of whether a price is charged.

“Relatives”, 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 person as:
 - (a) Father (including step- father)
 - (b) Mother (including step- mother)
 - (c) Son (including step- son)
 - (d) Son’s wife
 - (e) Daughter
 - (f) Daughter’s husband
 - (g) Brother (including step- brother)

“Transaction”: A transaction with a related party shall be construed to include single transaction or a group of transactions in a contract.

5.0 REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

5.1 Board Level Audit Committee

Every Related Party Transaction shall have prior approval of the Board Level Audit Committee.

While considering any transaction, the Committee shall take into account all relevant facts and circumstances including the terms of the transaction, the business purpose of the transaction, the benefits to the Company, or any other relevant matters.

The Board Level Audit Committee may grant omnibus approval for Related Party Transactions which are (i) repetitive in nature; (ii) in ordinary course of business; (iii) are on arm’s length basis, and (iv) within the material limits (v) maximum value per transaction: Rs 10 Crs. Maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a Financial Year is Rs 200 Crs.

The Board Level Audit Committee has laid down criteria for granting omnibus approval in line with this policy. The omnibus approval where granted shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

The approval shall specify the following:

- a) Name(s) of the related party.
- b) Nature of transaction.
- c) Maximum amount of transaction that can be entered into.
- d) Period of transaction.

- e) The indicative base price/current contracted price and the formula for variation in the price, if any.
- f) Any other condition as deemed fit and proper by the Board Level Audit Committee.

Provided that where the need for the RPT cannot be foreseen and details given above are not available, the Board Level Audit Committee may grant omnibus approval for such transaction subject to their value not exceeding Rs 1 Cr. per transaction.

The Board Level Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the company pursuant to each of the omnibus approval given.

Such approval of Board Level Audit Committee may be obtained by way of circular resolution or at a duly convened meeting of the Audit committee.

5.2 Board of Directors

All cases where the Related Party Transactions are not in the ordinary course of business and/or are not on arm's length basis but within the prescribed limits as per the Companies (Meetings of Board & its Powers) Rules, 2014, shall be brought before the Board of Directors for approval through Board Level Audit Committee.

All (a) Related Party Transactions that are beyond the prescribed limits as per Companies (Meetings of Board & its Powers) Rules, 2014 and being not in the ordinary course of business of the company and/ or not on an arm's length basis, (b) Material Related Party Transactions, requiring the approval of the shareholders, shall also need to be approved by the Board.

Such approval of Board may be obtained at a duly convened meeting.

5.3 Shareholders

All (a) Related Party Transactions that are beyond the prescribed limits as per Companies (Meetings of Board & its Powers) Rules, 2014 and being not in the ordinary course of business of the company and/ or not on an arm's length basis, (b) Material Related Party Transactions, shall require approval of BHEL shareholders through special resolution (after due approval by the Board).

6.0 General

- a. Apart from other provisions of the Act, in terms of explanation (ii) of the sub-clause VII of the clause 49 of the Listing Agreement, 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.
- b. Approval of Board and shareholders shall not be required in the following cases of Material Related Party Transactions which are on arm's length and in the ordinary course of business:
 - (i) transactions entered into between two government companies;

- (ii) 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.

Explanation (i): For the purpose of Clause 49(VII), "Government Company" shall have the same meaning as defined in Section 2(45) of the Companies Act, 2013."

7.0 DISCLOSURES

All disclosures pertaining to Related Party Transactions required under the Companies Act and Listing Agreement shall be made accordingly.

8.0 LIMITATION

In the event of any conflict between the provisions of this Policy and of the Listing Agreement/ Companies Act, 2013 or any other statutory enactments, rules, then, the provisions of the Listing Agreement / Companies Act, 2013 or other statutory enactments, rules, as the case may be shall prevail over this Policy and shall be adhered to accordingly by all concerned.

9.0 POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS

A transaction with a related party shall be considered material 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.

10.0 POLICY ON MATERIAL SUBSIDIARIES

A subsidiary shall be considered as material if the investment of the company in the subsidiary exceeds twenty per cent of its consolidated net worth as per the audited balance sheet of the previous financial year or if the subsidiary has generated twenty per cent of the consolidated income of the company during the previous financial year.

The company shall not dispose of shares in its material subsidiary which would reduce its shareholding (either on its own or together with other subsidiaries) to less than 50% or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal.

Prior approval of shareholders by way of special resolution shall be obtained for selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal.
