

# **Policy for Determining Material Related Party Transactions**

## **NESCO LIMITED**

## Introduction

Nesco Limited is committed to upholding the highest ethical and legal conduct in fulfilling its responsibilities and recognizes that related party transactions can present a risk of actual or apparent conflict of interest of the Directors, Senior Management with the interest of the Company.

The Board of Directors (the 'Board') of Nesco Limited (the 'Company') has adopted the following policy for Determining Material Related Party Transactions, in line with the requirements of Section 188 of Companies Act, 2013 read with the Rules made thereunder (hereinafter referred to as 'the Act') and Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 on Related Party Transactions (hereinafter referred to as 'Listing Regulations').

## Purpose

Pursuant to Regulation 23 of Listing Regulations, a policy needs to be formulated for determining material Related Party Transactions which shall also include dealing with Related Party Transactions. The Policy therefore lays down the mechanism to deal with Related Party Transactions.

Provisions of this policy are designed to govern the transparency of approval process and disclosure requirements to ensure fairness in the conduct of related party transactions in terms of the applicable laws. This Policy shall supplement Company's other policies in force that may be applicable to or involve transactions with related persons. Further, the Board may amend this policy from time to time as may be required.

## Definitions

- **"Act"** shall mean the Companies Act, 2013 and the Rules and Regulations made and notified thereunder.
- **"Listing Regulations"** means the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 including any subsequent amendments thereof.
- **"Audit Committee"** means Committee of Board of Directors of the Company constituted under Regulation 18 of the Listing Regulations and Section 177 of the Companies Act, 2013.
- **"Company"** means Nesco Limited.
- **"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. Chief Financial Officer; and
  - v. such other officer, not more than one level below the Directors who is in whole-time employment, designated as any managerial personnel by the Board; and
  - vi. such other officer as may be prescribed under the Companies Act, 2013.
- **"Related Party" or "Related Parties"** shall mean and include parties as defined in Section 2(76) of the Companies Act, 2013 read with rules thereto and clause (zb) of Regulation 2 of the Listing Regulations.
- **"Related Party Transaction" or "RPT"** means transactions as given under clause (a) to (g) of subsection (1) of Section 188 of the Act and the corresponding Rules thereto and as defined in clause (zc) of Regulation 2 of the Listing Regulations. These include sale, purchase, leasing or

supply of goods or property, availing/ rendering of any services, appointment of agents for any of these transactions, underwriting of securities and transfer of resources, services or obligations between the Company and its related party/ies, regardless of whether a price is charged or not.

Provided that the following shall not be a related party transaction:

- a. the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
  - b. the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:
    - i. payment of dividend;
    - ii. subdivision or consolidation of securities;
    - iii. issuance of securities by way of a rights issue or a bonus issue; and
    - iv. buy-back of securities.
- **“Material Related Party Transaction”**: A transaction with a Related Party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual consolidated turnover of the Company as per the last audited financial statements as defined under Regulation 23 of the Listing Regulations and the contracts or arrangements given under Companies Act, 2013.

Provided that in case of any amendment to the Act or Listing Regulations, definition of Material Related Party Transactions will be deemed to be changed without any further approval of Audit Committee or Board. Transaction involving payment made to related party with respect to brand usage or royalty, exceeding 5% of annual consolidated turnover of the Company as per the last audited financial statement, shall also be considered as material RPT under Listing Regulations.

- **“Material modifications”** means any modifications to the material related party transactions which were approved by the Audit Committee or Shareholders during the year which will change the complete nature of the transaction and in case of monetary thresholds which is in excess of 10% of the originally approved transaction, in case of exigencies only.
- **“Policy”** means Policy for determining material Related Party Transactions of the Company.
- **“Arms’ Length Transaction”** shall mean:
- the transaction carried on between the Company and the Related Party on similar terms and conditions as of an unrelated party, including the price, and
  - such price charged for the transactions to a Related Party has in no case been influenced by the relationship.

Pricing may not be the only determinant of a transaction being at arm’s length though it is an important factor. Therefore, the Company would apply judgment to conclude whether a transaction can be considered to be on an arm’s length basis.

The following has been considered to be helpful in concluding whether a transaction is on an arm’s length basis:

- The transaction is as per the prevailing price list / pricing policy / market price / at the same price (or margin) at which entered into with independent third parties
- The transaction is in line with third party quotations / bids
- Taking assistance of an expert – valuation specialist

- Principles under the transfer pricing guidelines (considering whether the pricing would be in line with what would have been charged to an unrelated party, without any conflict of interest)
- **“Ordinary course of business”** - The term ordinary course of business is not defined under the Act or the Rules thereunder. Therefore, it would depend on facts and circumstances of each case. The Company would therefore exercise judgment to conclude whether a transaction can be considered in the ordinary course of business. Examples of transactions that the Company would consider to be in the ordinary course of business would include but not limited to -
- The transaction is approved under its Memorandum and Articles of Association
  - The Company had entered into such transactions over the years in the past for furtherance of its business.
  - The transaction is carried out at sufficient frequency.
  - The transaction was in furtherance of the business of the Company and is consistent with its business objective of augmenting and acquiring newer capabilities
  - The transaction is undertaken on arm’s length basis

A transaction proposed to be disclosed as part of other income or other expenses, exceptional or extraordinary will generally be assessed on a case-to-case basis as to whether they could be considered to be in the ordinary course of business.

### **Audit Committee**

All RPTs shall be referred to the Audit Committee for prior approval, irrespective of its materiality. The Audit Committee shall also approve any subsequent material modification of RPTs. Chief Financial Officer will refer RPTs to Audit Committee for approval.

- A. In summary, prior approval of Audit Committee is required for the following Related Party Transactions:
- i. Where Company is a party;
  - ii. Where subsidiary of the Company is a party but the Company is not a party, if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds 10% of the annual consolidated turnover, as per the last audited financial statements of the Company;
  - iii. With effect from 01 April 2023, where subsidiary of the Company is a party but the Company is not a party, if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual standalone turnover, as per the last audited financial statements of the subsidiary;
  - iv. Transaction of the Company and/or its subsidiaries with unrelated parties, the purpose and effect of which is to benefit the Related parties of the Company or any of its subsidiaries.
- B. The Audit Committee will take into consideration following points while dealing with the RPTs:
- Nature of relationship with the related party;
  - Nature, material terms and conditions, monetary values and particulars of the contract or arrangement;
  - Method and manner of determining the pricing and other commercial terms;

- Whether the transaction is at arm's length; and
  - Any other information relevant or important for the Audit Committee/ Board to take a decision on the proposed transaction.
  - Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise);
  - Tenure of the proposed transaction (particular tenure shall be specified).
  - Value of the proposed transaction, the percentage of the listed entity's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction (for an RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided)
  - If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary:
    - i. details of the source of funds in connection with the proposed transaction;
    - ii. where any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments,
      - a. nature of indebtedness
      - b. cost of funds
      - c. tenure
    - iii. applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
    - iv. the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
  - Justification as to why the RPT is in the interest of the listed entity;
  - A copy of the valuation or other external party report, if any such report has been relied upon;
- C. Any member of the Audit Committee who has a potential interest in any related party transaction will not vote for the said related party transaction. Only members of the Audit Committee who are independent members shall approve all Related Party Transactions.

### **Omnibus Approval**

- A. The Audit Committee shall take into account following considerations while granting omnibus approval for RPTs, of repetitive nature:
- Criteria specified by the Audit Committee under Rule 6A of the Companies (Meetings of Board and its Powers) Rules, 2014 after approval of the Board;
  - Nature of relationship with the related party;
  - Nature, material terms and conditions, monetary values and particulars of the contract or arrangement;
  - Method and manner of determining the pricing and other commercial terms;
  - Justification for need of omnibus approval;
  - Whether the transaction is at arm's length and in ordinary course of business; and
  - Any other information relevant or important to take a decision on the proposed transaction.
- B. Pursuant to Regulation 23 of Listing Regulations, the threshold limits for RPTs for granting omnibus approval for each financial year is as follows:

S. No.	Criteria	Amount
1.	Maximum value of transactions, in aggregate, which can be allowed under the omnibus route	INR 15 Crores
2.	Maximum value per transaction which can be allowed	INR 1 Crore per transaction with a related party and not more than INR 10 Crores for transactions in aggregate with any related party

- C. The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to such criteria/conditions as mentioned under Listing Regulations and such other conditions as it may consider necessary in line with this policy and in the interest of the Company. Such omnibus approval shall be valid for a period not exceeding one year and shall require fresh approval after the expiry of one year. Additionally, the Committee may also grant omnibus approval for RPTs of unforeseen nature not exceeding Rupees One Crore.
- D. The Audit Committee shall review on a quarterly basis the details of RPTs entered into by the Company pursuant to omnibus approval.

### **Board of Directors Approval**

The Board shall approve RPTs, which are not in ordinary course of business and/or not at arm's length.

Where the Audit Committee does not approve the RPTs, it shall make its recommendations to the Board for approval.

If prior approval of Board or shareholders has not been taken, then such transaction needs to be ratified within 3 months of the date of entering into contract/ arrangement.

### **Shareholder's Approval**

All material RPTs defined under Regulation 23 of Listing Regulations, whether in ordinary course of business and/or at arm's length basis or not, shall require approval of the Board and shareholders, and the related parties shall not vote on such resolutions irrespective of whether the entity is a party to the particular transaction or not.

RPTs exceeding the limits prescribed under the Act and not in ordinary course of business and/or arm's length basis, shall require prior approval of the Board and shareholders, respectively.

Contracts/ arrangements with Company's subsidiaries and Companies would result in RPTs. Generally, such contracts/ arrangements would be in the ordinary course of business.

Once such contracts/ arrangements are approved by the Audit Committee, transactions arising out of same would not be subject to evaluation when they are executed.

## **Disclosure**

Appropriate disclosures as required under the Act and the Listing Regulations shall be made in the Annual Return, Directors Report and to the Stock Exchanges.

## **Applicability and Amendment**

Any changes to the policy on account of regulatory requirements will be reviewed and approved by the Audit Committee and the Board of the Company subject to approval of Audit Committee. The Audit Committee/ Board will give suitable directions/ guidelines to implement the same. The Policy shall be reviewed by the Audit Committee and the Board atleast once in every three years.

In the event, any provisions contained in this Policy is inconsistent with the provisions contained in the Listing Regulations, the Companies Act, 2013 or Accounting Standards, etc. or any amendments thereto, (Regulatory Acts), the provisions contained in the Regulatory Acts shall prevail.

*(Amended and approved by the Board of Directors on 25 May 2022)*

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