



POLYSIL
SHAPING WATER

POLYSIL IRRIGATION SYSTEMS LIMITED

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RELATED PARTY TRANSACTION POLICY

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The Board of Directors (the **“Board”**) of Polysil Irrigation Systems Limited (the **“Company”**) has basis the recommendation of the Audit Committee adopted this Related Party Transactions Policy (this **“Policy”**), which defines and lays down the procedures with regard to Related Party Transactions, pursuant to Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**“Listing Regulations”**).

(A) Scope and Objective

This Policy is intended to ensure the proper approval and reporting of transactions between the Company and any of its Related Parties. This Policy shall apply to all transactions entered into by the Company with its Related Parties as per the applicable laws and regulations, including the Companies Act, 2013 (the **“Companies Act”**) read with the rules framed thereunder and the Listing Regulations. The Company has, under this Policy, formulated guidelines for identification of Related Parties based on materiality thresholds and setting forth the proper conduct and documentation for Related Party Transactions. Going forward, the Audit Committee of the Company may review and amend this policy from time to time, subject to adoption by the Board.

(B) Definitions

“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.

“Audit Committee or Committee” means Committee of Board of Directors of the Company constituted in accordance with provisions of the Listing Regulations and the Companies Act.

“Board” means Board of Directors of the Company.

“Key Managerial Personnel” means key managerial personnel as defined under the Companies Act.

“Material Related Party Transaction” means a material transaction with a Related Party as defined under Section 23(1) of the Listing Regulations.

“Ordinary course of business” means such transaction as may be so determined based on the guiding principles set down under Appendix A, which may be amended from time to time in accordance with the statutory requirements and other industry practices and guidelines.

“Policy” means this Related Party Transaction Policy.

“Related Party” means related party as defined under Section 2(76) of the Companies Act and Regulation 2(1)(zb) of the Listing Regulations, read with amendments issued from time to time which is as follows:

- As per Section 2(76) of the Companies Act, Related Party means as defined under section 2(76) of Companies Act
- Applicable Accounting Standards
- Any person or entity
 - forming a part of the promoter or promoter group of the listed entity; or
 - holding equity shares of 20% or more either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediately preceding financial year [w.e.f April 1, 2022]; 10% or more [w.e.f April 1, 2023].

Beneficial interest basis includes parties

- Directly or indirectly, through any contract, arrangement or otherwise,
- The right or entitlement of a person alone or together with any other person to –
 - Exercise or cause to be exercised any or all of the rights attached to such share; or
 - Receive or participate in any dividend or other distribution in respect of such share

“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 (and holds) 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 under 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;
 - c. An investing company or the venture of the company.

(Explanation-For the purpose of this clause, “the investing company or the venture of a company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

(ix) such other person as may be prescribed;

Section 2(1)(zb) of the Listing Regulations:

An entity shall be considered as related to the company if:

- (i) such entity is a related party under Section 2(76) of the Companies Act: or
- (ii) such entity is a related party under the applicable accounting standards.

“**Related Party Transaction**” means a related party transaction as defined under Regulation 2(1)(zc) of the Listing Regulations read with amendments issued from time to time which is as follows:

Section 2(1)(zc) of the Listing Regulations:

“**Related Party Transaction**” means a transaction involving a transfer of resources, services or obligations between:

- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
- (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

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 and includes:

- (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;
- (vi) appointment to any office or place of profit in the Company, its subsidiary company or associate company; and

(vii) underwriting the subscription of any securities or derivatives thereof, of the Company

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 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.

“Relative” with reference to a director or a Key Managerial Personnel means persons defined under Section 2(77) of the Companies Act read with amendments issued from time to time.

“Subsidiary Company or Subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company-

- I. controls the composition of the Board of Directors or
- II. exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

For the purposes of this policy, Subsidiary includes foreign subsidiary also.

“Material Modifications” means any modification, amendment or waiver or supplement or consent with respect to a related party transaction or contract which were approved by the Audit Committee / Board / Shareholders, as the case may be, which is likely to result in variation of more than 20% in the pre-approved related party transaction value or price of such transaction or contract during the year.

Turnover for the sake of this policy means “Revenue from Operations” as shown in the results published by Company as per regulation 33.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, the Listing Regulations or any other applicable law or regulation.

(C) Policy

1. Materiality Thresholds

Regulation 23 of the Listing Regulations requires a company to provide materiality thresholds for transactions beyond which approval of the shareholders through resolution will be required and the Related Parties shall not vote to approve on such resolutions whether the entity is a related party to the particular transaction or not.

A transaction with related party shall be considered material if the transaction to be entered into individually or taken together with previous transactions during a financial year exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of entity as per the last audited financial statements of the listed entity, whichever is lower.

However, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed two percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

PERIODIC IDENTIFICATION OF RELATED PARTIES:

- 1.1 Related parties shall be identified under Companies Act and the Listing Agreement, as amended from time to time and regularly verified.
- 1.2 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.
- 1.3 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.
- 1.4 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.
- 1.5 The list of identified Related Parties 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.

2. Approvals for transactions with related parties:

- 2.1 Before undertaking any transaction, it must be examined by the Company whether such transaction

qualifies as a Related Party Transaction, requiring compliance with this policy. The Chief Financial Officer in consultation with the Company Secretary and other persons, as appropriate, shall determine whether a transaction does, in fact, constitute a Related Party Transaction and if so, ascertain in which of the following categories such transaction should be classified in order to determine the approval requirements:

2.2 Approval of Audit Committee

- (i) All transactions to be entered and any subsequent material modifications to be made with Related Parties shall require prior approval of Audit Committee of Polysil Irrigation Systems Limited. Further, all transactions, except waivers for certain related party transactions provided exceeding ten percent of the turnover of subsidiary, to be entered between subsidiaries (other than wholly owned subsidiary) of Polysil Irrigation Systems Limited shall require prior approval of Audit Committee of Polysil Irrigation Systems Limited. However, the Company may obtain omnibus approval from the Audit Committee for such transactions, subject to compliances set out below.
- (ii) The Audit Committee shall, after obtaining approval of the Board, specify the criteria for granting the omnibus approval in line with the Policy and such approval which shall include the following namely:
 - (a) Maximum value of the transaction, in aggregate, which can be allowed under the omnibus route in a year;
 - (b) The maximum value per transaction which can be allowed;
 - (c) Extent and manner of disclosures to be made to the audit committee at the time of seeking omnibus approval
 - (d) Review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each omnibus approval made;
 - (e) Transactions which cannot be subject to the omnibus approval by the Audit Committee
- (iii) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely:-
 - (a) repetitiveness of the transactions (in past or in future);
 - (b) justification for the need of omnibus approval

Provided that where the need for Related Party Transactions cannot be foreseen and details are not

available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rupees 1 crore per transaction.

- (iv) The omnibus approval shall provide details of (a) the name/s of the related party, nature of transaction, period of transaction, maximum aggregated value of the particular type of transaction that can be entered into, (b) basis of arriving at the indicative base price / current contracted price and the formula for variation in the price if any and (c) such other conditions as the Audit Committee may deem fit.
- (v) The Audit Committee shall review, at least on a quarterly basis, the aggregated value and other details of related party transactions transacted into by the company pursuant to the omnibus approval given.

2.3 Approval of the Board

All Transactions which are not in the Ordinary course of business or an Arm's Length Transaction will be put up for prior approval of the Board. In case the Company has a paid-up share capital exceeding the amount as may be prescribed or the value of the specified transaction exceeds the prescribed thresholds under the Companies Act read with applicable rules, it will also be put up for prior approval of the shareholders through an ordinary resolution.

2.4 Approval of the Shareholders

All Material Related Party Transactions and subsequent material modifications as defined by the audit committee under sub-regulation (2) will be carried out only after approval from Shareholders through resolutions.

Provided that the aforesaid approvals will not be required for transactions entered into between the Company and its wholly owned subsidiary and transactions entered into between two wholly-owned subsidiaries of the Company whose accounts are consolidated with the accounts of the company and placed before the shareholders at the general meeting for approval.

4 Voting requirements

4.1 Before approving any Related Party Transaction, the Chief Financial Officer must express a reasoned opinion on the Company's interest in carrying out the transaction and on the benefits

4.2 and substantive fairness of the related terms. In determining whether to approve or ratify a Related Party Transaction, the Committee / Board, as the case may be, shall take into account among other factors it deems appropriate, whether the Related Party Transaction is in the Ordinary course of

business of the Company and an Arm's Length Transaction and the extent of the Related Party's interest in the transaction.

4.3 The term Ordinary course of business has been elaborated in Appendix A to this Policy. For this purpose, the Audit Committee / Board, as the case may be, are entitled to seek the assistance of any employee of the Company or one or more independent experts of its choice at the expense of the Company.

4.4 Any member of the Audit Committee who has a potential interest in any Related Party Transaction will abstain from any discussions or voting on such proposals.

4.5 If any director of the Company is interested in any contract or arrangement with a Related Party, such director cannot be present at the Board meeting of the Company during discussions in the matter.

4.6 Members who are Related Parties in the context of the related party contract or arrangement for which an ordinary resolution is to be passed shall not vote to approve the related party contract or arrangement for which the approval is sought.

4.7 Members who are related parties shall not vote to approve on resolution in respect of approval of material Related Party Transaction.

5 Ordinary Course of Business (OCB) and Arm's Length Price (ALP):

5.1 Arm's length pricing in respect of all Related Party Transactions shall be determined in accordance with the policy memos adopted by the Board for specified Related Party Transactions, where such memos have been prepared.

5.2 All proposed Related Party Transactions may be assessed as to whether they are in the ordinary course of business by reference to the Company's Note on 'Determination of Ordinary Course of Business', as approved by the Audit Committee.

6 Related Party Transactions approved under this Policy

The Audit Committee has reviewed the types of Related Party Transactions of the Company and

determined that each of the transactions listed below are OCB and shall be deemed to be pre-approved by the Committee, subject to meeting the ALP requirements as per the policy memos¹ (and the accompanying contract memos²) adopted by the Board for specified Related Party Transactions.

- > Availing of technology related services with respect to customization & maintenance, onsite IT support, software / hardware license procurement and annual maintenance services;
- > Availing of clearing and settlement services;
- > Provision of rent and infrastructure support services;
- > Provision of network usage services;
- > Deputation of employees to group companies;
- > Reimbursement of expenses including pass through transactions;
- > Provision of software support services;
- > Contributions towards regulatory charges;
- > Technology related cost sharing with the related parties; and
- > Investment in equity / preference shares of the group entity.

7 Related Party Transactions not approved under this Policy

In the event the Company becomes aware of a Related Party Transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances and evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Audit Committee under this Policy and shall take any such action it deems appropriate.

8 Disclosure and reporting

- 8.1 Details of the Related Party Transactions during the quarter shall be disclosed in the Audit Committee and Board meeting.
- 8.2 The Company shall submit the disclosures of related party transactions as may be specified on a consolidated basis, in the format and timeline as defined under Section 23(9) of the Listing Regulations to the stock exchanges and publish the same on its website.

¹ Policy memos are broad framework specific to transactions falling under the similar category, for which pricing and arm's length mechanism can be uniformly followed.

² Contract Memos are specific to the contract /arrangement covered under the Policy memo and the same should follow the pricing as prescribed under the respective policy memos, along with the documents spelt out in the policy

8.3 The Company shall disclose to the Stock Exchange along with the compliance report on corporate governance on a quarterly basis details of all transactions with Related Parties exceeding the materiality threshold.

8.4 Director's report shall contain details of Related Party Transactions as required under the Companies Act.

9 Review of the Policy

The adequacy of this Policy shall be reviewed and reassessed by the Audit Committee periodically and appropriate recommendations shall be made to the Board to update the Policy based on the changes that may be brought about due to any regulatory amendments or otherwise.

Appendix A

Determination of Ordinary Course of Business

BACKGROUND:

Section 188(1) of the Companies Act states that a company shall not enter into any contract or arrangement, as specified therein, with a related party which is not in the ordinary course of business and which is not at arm's length, without the consent of the board of directors given by a resolution at the meeting of the board of directors. In case the Company has a paid-up share capital exceeding the amount as may be prescribed or the value of the specified transaction exceeds the prescribed thresholds under the Companies Act read with the rules , it will also be put up for prior approval of the shareholders through ordinary resolutions.

So, for transactions meeting both the criteria in the fourth proviso to section 188(1) of the Companies Act, viz. transactions that are entered in the Ordinary course of business and amount to an Arms' Length Transaction, the provisions of Section 188(1) of the Companies Act would not apply.

Whilst the framework policy defined by us defines an Arm's Length Transaction, the Policy does not articulate what would be deemed as ordinary course of business for the Company.

WHAT IS ORDINARY COURSE OF BUSINESS?

The phrase 'ordinary course of business' is not defined under the Companies Act or the rules prescribed thereunder. An assessment of whether a transaction is in 'ordinary course of business' may be very subjective, judgmental and can vary on case-to-case basis. The purpose of making such assessment is to determine whether the transaction is usual or customary to the Company and / or its line of business. The Company would, therefore, be required to exercise its judgment to conclude whether a transaction which the Company enters into can be considered to be in the ordinary course of its business.

For example, a car manufacturing company selling car to its group company would easily be deemed as a transaction that has been entered into by the company in its ordinary course of business.

Transactions that may be considered outside a company's normal course of business:

International Standard on Auditing ("ISA") 550- 'Related Parties' has listed certain illustrative (not exhaustive) examples of the same:

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

Tests for determining whether a contract/ activity falls within the ordinary course of business:

The courts have *inter alia* laid down the following principles in this regard:

- a. the objects of the company permit such activity;
- b. it is a historical practice and there is a pattern of frequency (and not an isolated transaction);
- c. it has a connection with the normal business carried on by the company;
- d. the income, if any, earned from such activity/transaction is assessed as business income in the company's books of accounts and hence, is a 'business activity'; and
- e. It is a common commercial practice.

Key factors which the management of the Company may consider in making its assessment for ordinary course of business of the Company:

i. Whether the transaction is covered in its Memorandum of Association:

If the transaction is covered in the objects clause of the Memorandum of Association (MOA) then it is likely to be in ordinary course of business of the company.

ii. Whether a transaction is usual or unusual:

Although a Company would be outsourcing its IT processes for the first time, if that is a norm in the industry in which it operates the transaction is not unusual. Hence, whilst deciding the usualness or otherwise of a transaction, one should not restrict oneself only to the company and its past history; rather, a wider perspective covering line of business.

iii. Frequency:

If a transaction occurs frequently over a period of time, the more likely it is to be an ordinary part of the business. However, the inverse of this does not necessarily hold true. Business purpose of the transaction and whether transaction is done on similar basis with other third parties:

The Company would consider transactions to be in the ordinary course of business which include those that form part of the Revenue from Operations, the costs of goods sold, and the normal expenses

incurred for operating the business uninterruptedly or part of capital asset like replacement / maintenance of fixed assets (considering the business rationale and without any complicated terms and conditions as compared to transactions with independent third parties)

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

iv. Size and volume of transaction.

The materiality of the transaction in terms of its value may be considered.
