



POLICY ON RELATED PARTY TRANSACTIONS

Document History

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Background

The policy is drafted as per the provisions of Sections 177 and 188 of the Companies Act, 2013 ('the Act'), for dealing with the related party transactions. These Sections, along with the relevant Rules framed under the Act, have highlighted certain compliances and approval requirements for dealing with related party transactions.

To ensure compliance with above provisions, this framework encompasses, *inter alia*, various aspects related to:

- Identification of related parties
- determination of related party transaction and process of taking approvals as per the Act
- inter departmental process flows viz. Functional departments, Board Secretariat & Finance

Purpose

The objective of this policy is to ensure identification, approval, disclosure and reporting of related party transactions in the best interest of NPCI BHIM Services Limited (NBSL or the Company) and its stakeholders.

Scope of the Policy

This policy applies to all the persons falling within the purview of the definition of Related Parties.

Acronyms and Definitions

Acronym/ Term	Description
KMP	Key Managerial Personnel

Definitions:

a. Related Party

As per section 2(76) of the Act 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 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 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 body corporate which is—
 - i. a holding, subsidiary or an associate company of such company;
 - ii. a subsidiary of a holding company to which it is also a subsidiary; or
 - iii. an investing company or the venturer of the company

Explanation.- For the purpose of this clause, “the investing company or the venturer 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. a director other than an Independent Director or Key Managerial Personnel of the holding company or his relative with reference to a company;

b. Key Managerial Personnel

As per Section 2(51) of the Act, 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. the Chief Financial Officer;
- V. such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- VI. such other officer as may be prescribed.

c. Relative

As per Section 2(77) of the Act and Rule 4 of Companies (specification of definitions details) Rules, 2014, 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 in such manner as provided below
 - 1. Father (includes step-father)
 - 2. Mother (includes step-mother)

3. Son (includes step-son)
4. Son's Wife
5. Daughter
6. Daughter's husband
7. Brother (includes step-brother)
8. Sister (includes step-sister)

d. Ordinary Course of Business:

Ordinary Course of Business includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. The ordinary course of business covers the usual transactions, customs and practices related to the business.

The following factors are indicative of transactions that may be covered into the ambit of the term 'ordinary course of business':

- i. The transaction is normal or otherwise unremarkable for the business.
- ii. The transaction is frequent/regular
- iii. The transaction is a source of income for the business
- iv. Transactions that are part of the standard industry practice, even though NPCI may not have done it in the past.

These are not exhaustive criterias and NPCI will have to assess each transaction considering its specific nature and circumstances.

e. Arm's length basis:

In terms of Section 188 of the Act, the expression '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. A transaction with a related party will be considered to be on arm's length basis if the key terms, including pricing of the transaction, taken as a whole, are comparable with those of similar transactions if they would have been undertaken with unrelated parties.

Identification of Related Party

A Related party will be brought to the attention of the Management / Functional teams and Board on regular basis by the Board Secretariat Department and the list of Related Party(ies) shall be updated and reviewed on a timely basis and would be communicated to the functional departments.

Each Director and Key Managerial Personnel is responsible for providing declaration to Board Secretariat Department about the related party involving him/her or his/her Relative or entities related thereto.

The functional departments shall submit to Finance and Accounts and the Board Secretariat Department, the details of proposed transactions (except those for which omnibus approval has been granted by the Board) with draft agreement or other supporting documents justifying that the transactions are on arm's length basis and prevailing market rate. Based on such information, Board Secretariat department will facilitate for necessary approvals from the Board of Directors, if necessary.

Approval of Related Party Transactions

a. Board of directors

All the transactions which are identified as related party transactions should be approved by the Board before entering into such transaction. The Board of directors shall consider all relevant factors while deliberating the related party transactions for its approval.

Any member of the Board who has any potential interest / is interested in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction. A related party transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length price, would require approval of the Board of Directors and if it exceeds the threshold limits prescribed, approval of the shareholders would be required as prescribed under the Companies Act, 2013 and rules made thereunder.

The Board may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under and Companies (Meetings of Board and its Powers) Rules, 2014. Such omnibus approval shall be valid for a period of one financial year.

The Board shall review and take note of, on a quarterly basis, the details of related party transactions entered into by NBSL pursuant to the omnibus approvals given.

Subject to the applicable laws, the Board shall have the power to ratify, revise or terminate the Related Party Transactions, which are not in accordance with this Policy i.e. which is not under the omnibus approval or otherwise pre-approved by the Board.

In case any related party transactions are referred to the Board for its approval due to the transaction being

- (i) not in the ordinary course of business, or
- (ii) not at an arm's length price,

the Board will consider factors such as, nature of the transaction, material terms, the manner of determining the pricing and the business rationale for entering into such transaction. On such consideration, the Board may approve the transaction or may require such modifications to transaction terms as it deems appropriate under the circumstances.

Any Director who has any interest in any related party transaction will recuse himself/herself and abstain from discussion and voting on the approval of the related party transaction.

In case, where prior approval of the Board as required under the Act is not taken before entering into a Related Party Transaction, the Board may ratify such transactions within three months from the date on which such contract or arrangement was entered into in accordance with this Policy.

b. Shareholders

If a related party transaction is a material transaction i.e. a transaction which is not in the ordinary course of business and at arm's length basis and exceeds the limits as prescribed under Rule 15 of the Companies (Meeting of the Board and its power) Rules, 2014 it shall require shareholder's approval while entering into such related party transactions.

As per the proviso to Section 188 (1) of the Companies Act, 2013, requirement of passing the resolution shall not be applicable for 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.

In case, where prior approval of the Shareholders as required under the Act is not taken before entering into a Related Party Transaction, the Shareholders may ratify such transaction within three months from the date on which such contract or arrangement was entered into in accordance with this Policy.

A related party having conflict of interest in the transaction for which resolution being proposed, shall not vote on such resolution to be passed for approving related party transaction.

Omnibus approval by the Board for related party transactions

- a. The Board of directors shall specify the criteria for making the omnibus approval which shall include the following, namely: -

- (i) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
 - (ii) the maximum value per transaction which can be allowed;
 - (iii) extent and manner of disclosures to be made to the Board at the time of seeking omnibus approval;
 - (iv) review, at such intervals as the Board may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;
 - (v) Transactions which cannot be subject to the omnibus approval by the Board.
- b. The Board 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.
- c. the Board shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of NBSL;
- d. the omnibus approval shall contain or indicate the following:
- (a) name(s) of the related parties,
 - (b) nature and duration of transaction,
 - (c) maximum amount of transactions that can be entered into,
 - (d) the indicative base price / current contracted price and the formula for variation in the price if any; and
 - (e) any other information relevant or important for the Board to take a decision on the proposed transaction:
- Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, the Board may make omnibus approval for such transactions subject to their value not exceeding Rupees one crore per transaction.
- e. The Board shall review and take note of, at least on a quarterly basis, the details of related party transactions entered into by NBSL pursuant to each of the omnibus approvals given.
- f. Such omnibus approvals shall be valid for a period not exceeding one financial year and shall require fresh approvals after the expiry of such financial year.

Related party transactions not approved under this policy

In the event NBSL becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Board. The Board shall consider all of the relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to NBSL, including ratification, revision or termination of the related party transaction.

In case prior approval from Board is not taken, such a transaction shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Board as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is covered by this policy.

In any case, where the Board determines not to ratify a related party transaction that has been commenced without approval, the Board, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party, etc.

In connection with any review/approval of a related party transaction, the Board has authority to modify or waive any procedural requirements of this Policy.

Reporting of related party transactions/Disclosures

The particulars of contracts or arrangement with related parties referred to in section 188(1) of the Act, if applicable, shall be disclosed in the Annual Report in the format prescribed under the Act.

This Policy shall also be uploaded on the website of the Company and a web link there to shall be provided in the Annual Report.

Review of the Policy

This Policy will be reviewed and reassessed by the Board on an annual basis or as and when required based on changes that may be brought about, due to any regulatory / statutory amendments or otherwise. Appropriate recommendations shall be made to the Board for its approval.

Laws to take precedence

The Policy shall be read in conjunction with the applicable provisions of the Act and if any of the provisions of this Policy are inconsistent with the applicable provisions of the Act, then such provisions shall prevail over the Policy to that extent and the Policy shall be deemed to have been amended to that extent to be read in consonance with applicable laws. As this Policy is pursuant to the applicable provisions of the Act, if any change in such provision or interpretation thereof

necessitates any change to the Policy, then this Policy shall be read to accommodate such changes.

Annexure I

Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014

Contract or arrangement with a related party: A company shall enter into any contract or arrangement with a related party subject to the following conditions, namely: -

- 1) The agenda of the Board meeting at which the resolution is proposed to be moved shall disclose-
 - 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 Board to take a decision on the proposed transaction.

- 2) Where any director is interested in any contract or arrangement with a related party, such director shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement-

- 3) For the purposes of first proviso to sub-section (1) of section 188, except with the prior approval of the company by a resolution, a company shall not enter into a transaction or transactions, where the transaction or transactions to be entered into,
 - a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188, with criteria as mentioned below-
 - (i) sale, purchase or supply of any goods or material, directly or through appointment of agent, amounting to ten percent or more of the turnover of the company, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;
 - (ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to ten percent or more of net worth of the company,

as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;

(iii) leasing of property of any kind amounting to ten percent or more of the turnover of company, as mentioned in clause (c) of sub-section (1) of section 188;

(iv) availing or rendering of any services, directly or through appointment of agent, amounting to ten percent or more of the turnover of the company, as mentioned in clause (d) and clause

(e) respectively of sub-section (1) of section 188:

Explanation - It is hereby clarified that the limits specified in sub-clause (i) to (iv) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

(b) is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and a half lakh rupees as mentioned in clause (f) of sub-section (1) of section 188.

(c) is for remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding one percent of the net worth as mentioned in clause (g) of sub-section (1) of section 188.

Explanation. - (1) The turnover or net worth referred in the above sub-rules shall be computed on the basis of the audited financial statement of the preceding financial year.

(2) In case of wholly owned subsidiary, the resolution is passed by the holding company shall be sufficient for the purpose of entering into the transaction between the wholly owned subsidiary and the holding company.

(3) The explanatory statement to be annexed to the notice of a general meeting convened pursuant to section 101 shall contain the following particulars, namely:-

(a) name of the related party;

(b) name of the director or key managerial personnel who is related, if any;

(c) nature of relationship;

(d) nature, material terms, monetary value and particulars of the contract or arrangements;

(e) any other information relevant or important for the members to take a decision on the proposed resolution.