

POLICY ON
RELATED PARTY TRANSACTIONS

HB PORTFOLIO LIMITED

POLICY ON RELATED PARTY TRANSACTIONS

1. PREAMBLE

The Board of Directors (the “Board”) of HB Portfolio Limited (the “Company” or “HBPL”) in their meeting held on 14th November, 2014 adopted the following Policy and procedures with regard to Related Party Transactions as per the requirement of Clause 49 of the Listing Agreement entered into with the Stock Exchange (effective from 01st October, 2014).

This Policy was suitably amended and re-adopted by the Board of Directors on the recommendations of the Audit Committee in their meeting held on 10th February, 2016 in terms of Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) which came into force w.e.f 01st December, 2015.

This Policy has been further revised and approved by the Board of Directors on the recommendations of the Audit Committee in their meeting held on 27th May, 2019 in terms of amended Regulation 23 of the Listing Regulations which came into force w.e.f 01st April, 2019.

2. SCOPE AND OBJECTIVE 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 thereunder and Regulation 23 of SEBI (Listing Obligation and Disclosure Requirement) Regulations 2015 (Listing Regulations), HB Portfolio Limited (the “Company” or “HBPL”) has formulated guidelines for identification of related parties and the proper conduct and documentation of all related party transactions.

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 the Listing Regulations and any other laws and regulations as may be applicable to the Company.

3. DEFINITIONS

“**Audit Committee or Committee**” means Committee of Board of Directors of the Company constituted under the provisions of the Act and the Listing Regulations.

“**Arms 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.

“**Board**” means Board of Directors of the Company.

“**Control**” shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

“**Key Managerial Personnel**” means key managerial personnel as defined under the Act and includes

- (i) Managing Director, or Chief Executive Officer or manager and in their absence, a whole-time director;
- (ii) Company Secretary; and
- (iii) Chief Financial Officer

“Material Related Party Transaction” means a transaction with a related party 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.

A transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transactions(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.

“Ordinary course of business” may include that transaction which is permitted by the Object Clause in the Memorandum of Association of the Company or which is connected with the normal business of the Company or which is a historic/common commercial practice or the income earned of which is assessed a business income or expense incurred which is assessed as a business expense.

“Policy” means Related Party Transactions Policy.

“Related Party” shall have the meaning as defined in Section 2(76) of Act and Regulation 2(1)(zb) of the Listing Regulations, as amended.

“Related Party Transaction” (RPT) means:

- for the purpose of the Act, specified transaction of the Company with Related Parties mentioned in clause (a) to (g) of sub-section 1 of Section 188 and clause (iv) of sub-section 4 of Section 177 of the Act; and
- for the purpose of Regulation 2(1)(zc) of the Listing Regulations, a transfer of resources, services or obligations between the Company and a related party, 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.

Provided that this definition shall not be applicable for the units issued by Mutual Funds which are listed on recognized stock exchange(s).

“Relative” with reference to a Director or KMP means persons as defined in Section 2(77) of the Act and rules prescribed thereunder.

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

4. 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. None of the related parties of a company shall vote to approve on such resolution irrespective of whether the entity is a related party to the particular transaction or not (Related Parties can cast only negative vote to reject the shareholders resolution on material Related Party Transactions).

Provided that approval from shareholders will not be required for Material Related Party Transaction 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.

The Company has fixed the following materiality threshold for the purpose of Regulation 23(1), 23(1A) and 23(4) of the Listing Regulations:

- Payment to a Related Party with respect to brand usage or royalty – 2% of the annual consolidated turnover of the Company as per last its audited financial statements.
- Other transactions with a Related Party - 10% of the annual consolidated turnover of the Company as per its last audited financial statements.

Related Party Transaction policy on materiality and its threshold limits shall be reviewed by the Board of Directors of the Company once in every three years and updated accordingly.

5. MANNER OF DEALING WITH RELATED PARTY TRANSACTION

All Related Party Transactions must be reported to the Audit Committee and referred for approval by the Committee in accordance with this Policy.

5.1 Identification of Related Party Transactions

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. The Board/Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this Policy.

The Company strongly prefers to receive such notice of any potential Related Party Transaction well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction.

5.2 Approval of the Audit Committee

5.2.1 All Related Party Transactions shall require prior approval of Audit Committee. However, the Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following conditions:

- a. The Audit Committee shall satisfy itself the need / justification for such omnibus approval for transactions of repetitive nature and that such approval is in the interest of the Company;
- c. Such omnibus approval shall specify (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, (ii) the indicative base price / current contracted price and the formula for variation in the price if any and (iii) such other conditions as the Audit Committee may deem fit;
Provided that where the need for Related Party Transaction cannot be foreseen and aforesaid details are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs. 1 Crore per transaction.
- d. The 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.
- e. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

5.2.2 Further, all Material Related Party Transactions shall require approval of the Shareholders through resolution and no related party shall vote to approve on such resolutions whether the entity is a related party to the particular transaction or not.

Provided that Clause 5.2.1 & 5.2.2 shall not be applicable to the transactions entered into between a Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.

5.2.3 In compliance to the approval of the Board of Directors, the Audit Committee of the Company has specified following criteria for granting omnibus approval:

- a. The maximum value of the transactions, in aggregate, which can be allowed under omnibus route in a year will be 30% of the annual consolidated turnover of the company as per last its audited financial statements.
- b. The maximum value per transaction which can be approved under omnibus route will be the same as per the materiality threshold as defined in Clause 4 of the Policy.
- c. While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review the following documents / seek the following information from the management in order to determine if the transaction is in the ordinary course of business and at arm's length or not:
 - (i) Nature of the transaction i.e. details of goods or property to be acquired / transferred or services to be rendered / availed (including transfer of resources) – including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;
 - (ii) Key terms (such as price and other commercial terms contemplated under the arrangement) of the proposed transaction, including value and quantum;
 - (iii) Key covenants (non-commercial) as per the draft of the proposed agreement / contract to be entered into for such transaction;
 - (iv) Special terms covered / to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;
 - (v) Benchmarking information that may have a bearing on the arm's length basis analysis, such as:
 - market analysis, research report, industry trends, business strategies, financial forecasts, etc.;
 - third party comparable, valuation reports, price publications including stock exchange and commodity market quotations;
 - management assessment of pricing terms and business justification for the proposed transaction; comparative analysis, if any, of other such transaction entered into by the company.

5.2.4 Transaction of following nature will not be subject to the omnibus approval of the Audit Committee:

- Transactions which are not at arm's length or not in the ordinary course of business.
- Transactions which are not repetitive in nature.
- Transactions exceeding materiality thresholds as laid down in Clause 4 of this Policy.
- Transactions in respect of selling or disposing of the undertaking of the company.
- Financial Transactions viz. 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
- Any other transaction the Audit Committee may deem not fit for omnibus approval.

5.3 Procedure for Approval of Related Party Transactions

All Related Party Transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

To review a Related Party Transaction, the Committee will be provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters. In determining whether to approve a Related Party Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- Whether the terms of the Related Party Transaction are fair and on arms length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- Whether the Related Party Transaction would affect the independence of an independent Director;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and
- Whether the Related Party Transaction would present an improper conflict of interest for any Director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the Director, Executive Officer or other Related Party, the direct or indirect nature of the Director's, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board/Committee deems relevant.

5.3 Approval of the Board of Directors

As per the provisions of Section 188 of the Act, all kinds of transactions 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.

In addition to the above, the following kinds of transactions with related parties are also placed before the Board for its approval:

- (a) 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;
- (b) 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;
- (c) Transactions which are in the ordinary course of business and at arm's length basis, but which as per Audit Committee requires Board approval;
- (d) Transactions meeting the materiality thresholds laid down in Clause 4 of the Policy, which are intended to be placed before the shareholders for approval.

5.4 Approval of the Shareholders of the Company

- (a) All the transactions with related parties exceeding the materiality thresholds, laid down in Clause 4 of the Policy, shall be placed before the shareholders for approval.
For this purpose, no entity falling under the definition of related parties shall vote to approve the relevant transaction irrespective of whether the entity is a party to the particular transaction or not.
- (b) In addition to the above, all kinds of transactions specified under Section 188 of the Act which (a) are not in the ordinary course of business and at arm's length basis; and (b) exceed the thresholds laid down in Companies (Meetings of Board and its Powers) Rules, 2014 shall be placed before the shareholders for its approval.
- (c) The requirement for seeking Shareholders approval shall not be applicable to transactions between the Company and its wholly-owned subsidiary(ies) whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.

6. 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 Committee. The Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take any such action it deems appropriate.

In any case, where the Committee determines not to ratify a Related Party Transaction that has been commenced without approval, the Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Committee has authority to modify or waive any procedural requirements of this Policy.

7. DISCLOSURES

- The Company shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Act with related parties, which are not in ordinary course of business or not at arm's length basis along with the justification for entering into such transaction.
- The Company shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website.
- The Company shall also provide details of all related party transactions exceeding the materiality threshold (laid down in Clause 4 of the Policy) on a quarterly basis to the stock exchanges.
- This Policy shall be disclosed on the Company's website, www.hbportfolio.com and a weblink thereto shall be provided in the Annual Report of the Company.

8. AMENDMENT TO THE POLICY

The Board of Directors on the recommendations of the Audit Committee shall alter, amend or modify this Policy from time to time in line with the requirement of the Companies Act, 2013, SEBI Listing Regulations etc. which may be amended and applicable from time to time.