

AAVAS FINANCIERS LIMITED



Policy on Materiality of related party transactions and on dealing with related party transactions

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1. Objective of Policy

The Board of Directors ('the Board') of Aavas Financiers Limited (hereinafter referred to 'the Company' or 'AFL'), in pursuance of Regulation 23 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) and other applicable provisions, has adopted Related Party Transaction Policy ('this policy') to regulate the transactions between the Company and its Related Parties. The Board of Directors (the "Board") further recognizes that transaction with related party(s) could raise conflicts of interest and therefore has adopted this Related Party Transaction Policy (this "Policy") to be followed in connection with all related party transactions involving the Company. All Transactions with Related Party shall be subject to review and approval in accordance with the procedures set forth below, inter-alia, the provisions of applicable laws.

2. Definitions

Unless the term(s) otherwise defined, the following terms shall have the following meaning assigned to them wherever appearing in the policy:

- i) **"Applicable Laws"** includes (a) the Companies Act, 2013 ('the Act') and rules made thereunder; (b) the SEBI LODR Regulations (c) Accounting Standards (d) National Housing Bank (NHB) Act, 1987, Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 issued by Reserve Bank of India (RBI) and Notifications issued by RBI/NHB from time to time and (e) any other statute, law, standards, regulations or other governmental instruction relating to Related Party Transactions.
- ii) **"Arm's length transaction"** (Section 188(1)(b) of Companies Act, 2013) Mean transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- iii) **"Audit Committee"** means the committee of Board of Directors of the Company constituted in accordance with the provisions of Companies Act, 2013 and Rules made thereunder and SEBI LODR.
- iv) **"Control"**
 - a) ownership, directly or indirectly, of more than one half of 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.
- v) **"Key Managerial Personnel" or ("KMP")** shall have the meaning as defined in the Companies Act 2013
- vi) **Omnibus approval**

In case of certain frequent/ repetitive/ regular transactions with Related Parties which are in the ordinary course of business of the Company and on Arm's length basis, the Audit Committee may grant an omnibus approval for such

Related Party Transactions proposed to be entered into by Company / AFL, subject to the following conditions, namely -

- (a) the audit committee shall, after obtaining approval of Board, lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the entity and such approval shall be applicable in respect of transactions which are repetitive in nature;
- (b) the audit committee shall satisfy itself regarding the need and justification for such omnibus approval and that such approval is in the interest of the entity;
- (c) the omnibus approval shall specify:
 - (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall 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 rupees one crore per transaction.
 - (iv) such other conditions as may be specified by the law from time to time.
- (d) Such omnibus approvals shall be valid for a period not exceeding one financial year and shall require fresh approvals after the expiry of one financial year.
- (e) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company.

vii) "Related Party"

In relation to the Company, means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

"Provided that any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company shall be deemed to be a related party"

viii) "Related Party Transaction" (hereinafter referred as "RPTs")

As per SEBI (LODR), "related party transaction" means a transfer of resources, services or obligations between a listed entity 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.

As per section 188(1) of Act related party transaction will include following specific transactions:

- 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) such related party's 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.

ix) Relative

In terms of Section 2(77) of the Act read with the Companies (Specification of Definitions Details) Rules, 2014 a person is said to be a relative of another, if –

- a. They are members of a Hindu undivided family; b. They are husband and wife; c. Father (including step-father); d. Mother (including step-mother); e. Son (including step-son); f. Son's wife; g. Daughter; h. Daughter's husband; i. Brother (including step-brother); or sister (including step-sister).

x) "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 10% (ten percent) of the annual consolidated Revenue/Turnover of the Company as per the last audited financial statements of the Company.

xi) "Undertaking" shall mean an undertaking in which the investment of the company exceeds twenty per cent. of its net worth as per the audited balance sheet of the preceding financial year or an undertaking which generates twenty per cent. of the total income of the company during the previous financial year

3. Procedures

3.1 Audit Committee

3.1.1 Each of AFL directors and executive officers are instructed to inform the Company Secretary or Management of the Company of any potential Transaction with Related Party. All such transactions will be analysed by the Audit Committee in consultation with management to determine whether the transaction or relationship does, in fact, constitute a Related Party Transaction requiring compliance with this Policy. The Committee will be provided with the following details of each new, existing or proposed Related Party Transaction :

- The Name of the Related Party and nature of relationship;
- The nature, duration and particulars of the contract or arrangement;
- The material terms of the contract or arrangement including the value, if any;
- Any advance paid or received for the contract or arrangement, if any;
- The manner of determining the pricing and other commercial terms, both included as part of the contract and not considered as part of the contract;
- 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
- Any other information relevant or important for the Audit Committee to take a decision on the proposed transaction.

3.1.2 All transactions with related party shall require approval of the Audit

Committee irrespective of ordinary course of business or arm length basis.

- 3.1.3 The Related Party Transactions which are not in the ordinary course of business and/or not at arm's length will be reviewed by the Audit Committee and then recommended to the Board of Directors for its approval or recommending to the shareholders' of company for their approval.
- 3.1.4 If a Related Party Transaction is ongoing, the Committee may establish guidelines for the Company's management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee shall periodically review and assess ongoing relationships with the Related Party.
- 3.1.5 The Committee may also disapprove of a previously entered Related Party Transaction and may require that management of the Company take all reasonable efforts to terminate, unwind, cancel or annul the Related Party Transaction.
- 3.1.6 A Related Party Transaction entered into without pre-approval of the Committee shall not be deemed to violate this Policy, or be invalid or unenforceable, so long as the transaction is brought to the Committee as promptly as reasonably practical after it is entered into or after it becomes reasonably apparent that the transaction is covered by this policy.
- 3.1.7 The Committee may decide to get advice, certification, study report, transfer pricing report, rely upon certification issued as per the requirement of other laws etc. from a professional (includes statutory / internal Auditors) or technical person including price discovery process, to review transactions with Related Party.
- 3.1.8 Any member of the Committee who has an interest in the transaction under discussion will abstain from voting on the approval of the Related Party Transaction. However, the Chairperson of the Committee may allow participation of such member in some or all of the Committee's discussions of the Related Party Transaction.
- 3.1.9 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.
- 3.1.10 The Audit Committee may review any previously approved or ratified Related Party Transaction that is continuing and determine based on then-existing facts and circumstances, including the Company's existing contractual or other obligations, if it is in the best interests of the Company to continue, modify or terminate the transaction.

3.2 Board of Directors

- 3.2.1 Approval of the Board shall not be required for the RPTs to be entered into in ordinary course of business and at arm's length basis.
- 3.2.2 All related parties with whom the company intends to enter into transaction as recommended by Audit Committee and which are other than in ordinary course of business or arm length basis, will require prior approval of the Board of Directors.
- 3.2.3 The Board of Directors shall review and recommend all transactions in

terms of section 188(1) requiring shareholders' prior approval.

- 3.2.4 The Board of Directors shall annually review, the details of all Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, and the benefits to the Company.
- 3.2.5 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.
- 3.2.6 Following minimum information would be placed before the Board for enabling the Board to consider and approve the Related Party Transaction:
- The Name of the Related Party and nature of relationship;
 - The nature, duration and particulars of the contract or arrangement;
 - The material terms of the contract or arrangement including the value, if any;
Any advance paid or received for the contract or arrangement, if any;
 - The manner of determining the pricing and other commercial terms, both included as part of the contract and not considered as part of the contract;
 - 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
 - Any other information relevant or important for the Audit Committee to take a decision on the proposed transaction.

4. Overall Threshold Limit

- 4.1.1 Overall threshold limit for related party transaction is Rs. 10 Crore for a financial year.
- 4.1.2 Any transaction with related party over and above of this threshold limit shall require the prior approval of Board.

5. Approval of Shareholders

- 5.1. The contracts or agreements with any Related Party which are not in the ordinary course of business and not at arm's length in respect of transactions specified in section 188(1) of the Companies Act, 2013, will require prior approval of the shareholders by a resolution.
- 5.2. For the purposes of first proviso to sub-section (1) of Section 188 of Act, 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 of Act, with criteria as mention 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/Revenue of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188 of Act.

- 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 or rupees one hundred crore, whichever is lower, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188 of Act.
 - iii) leasing of property any kind amounting to ten percent of turnover or more of the net worth of company or ten per cent or more of turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188 of Act;
 - 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 or rupees fifty crore, whichever is lower as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188 of Act.
 - 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 of Act.
 - 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 as mentioned in clause (g) of sub-section (1) of Section 188 of Act.
- 5.3. All material related party transactions will require shareholders' approval and no related party shall vote to approve such resolution in terms of applicable laws as on date of such approval.
- 5.4. The explanatory statement to be annexed to the notice of general meeting in this regards shall contain following particulars, inter-alia:
- i. name of the related party;
 - ii. name of the director or key managerial personnel who is related, if any;
 - iii. nature of relationship;
 - iv. nature, material terms, monetary value and particulars of the contract or arrangement;
 - v. any other information relevant or important for the members to take a decision on the proposed resolution.

6. Disclosure

Each director who is, directly or indirectly, concerned or interested in any way in any transaction with the Related Party shall disclose all material information and the nature of his interest in the transaction to the Committee or Board of Directors.

7. Review of Policy

The Board may periodically review this Policy and may recommend amendments to this Policy as it deems appropriate.

8. Administrative Measures

Audit Committee / Board shall institute appropriate administrative measures to provide that all Related Party Transactions are not in violation of, and are reviewed in accordance with, these Policies and Procedures.

The Audit Committee / Board as applicable, shall evaluate such transaction and may decide such action as it may consider appropriate including ratification,

revision or termination of the Related Party Transaction.

In connection with such evaluation and review of the Related Party Transaction, the Audit Committee / Board as applicable, shall have the authority to modify or waive any procedural requirements of this Policy.

9. Interpretation

In any circumstance where the terms of these Policies and Procedures differ from any existing or newly enacted law, rule, regulation or standard governing the Company, the law, rule, regulation or standard will take precedence over these policies and procedures until such time as these Policies and Procedures are changed to confirm to the law, rule, regulation or standard.

10. Dissemination of Information

AFL shall upload this Policy on its website i.e www.aavas.in AFL shall also make relevant disclosures in its Annual Report and maintain such registers as required under the provisions of the Companies Act, 2013, Rules made thereunder.

11. Implementation

The policy will be implemented by the management of the Company from the date it is approved by the Board. All Related Party Transaction entered prior to the date of approval of this Policy and Procedures shall be subject to review by the Audit Committee.

12. Exclusion of Policy

This policy shall not be applicable to following related party transactions:

- a. Transactions entered into with Related Parties in ordinary course of business and on arm's length basis;
- b. Transactions entered into between Holding Company and Wholly Owned Subsidiary Company whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.