

# POLICY ON RELATED PARTY TRANSACTIONS AND ON DEALING WITH SUCH TRANSACTIONAL SUBSIDIARIES

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## 1. INTRODUCTION

The Board of Directors (the “Board”) of Firstsource Solutions Limited (the “Company”) has adopted the following Policy and procedures with regard to Related Party Transactions as defined below. The Audit Committee will review and may amend this Policy from time to time.

This Policy will be applicable to the Company. This Policy is to regulate transactions between the Company and its Related Parties as determined based on the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (‘SEBI LODR’), SEBI LODR (Amendment) Regulations, 2018 (‘SEBI LODR’) and any other laws and regulations applicable to the Company.

## 2. POLICY OBJECTIVE

This Policy is framed based on Listing Agreement entered by the Company with the Stock Exchanges and primarily intended to ensure the governance and reporting of transactions between the Company and its Related Parties.

## 3. DEFINITIONS

**“Act”** means the Companies Act, 2013.

**“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.

**“Associate Company”** means a company as defined under section 2(6) of the Act and as defined by Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”.

**“Audit Committee or Committee”** means a Committee constituted by the Board of Directors of the Company, from time to time, under provisions of SEBI LODR and the Act or the Companies Act, 1956.

**“Board of Directors” or “Board”** means the collective body of the Board of Directors of the Company, as constituted from time to time.

**“Control”** shall have the same meaning as defined in section 2(27) of the Act and SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

**“Key Managerial Personnel”** means the key managerial personnel (“KMP”) of the Company as defined in section 2(51) of the Act and the Rules made thereunder

**“Ordinary course of business”** means the usual transactions, customs and practices undertaken by the Company to conduct its business operations and activities and includes all such activities which the Company can undertake as per Memorandum & Articles of Association.

**“Policy”** means Policy on Related Party Transactions and also on dealing with Related Party Transactions.

“**Relative**” with reference to any person means a relative as defined in section 2(77) read with section 203 of the Act and Rules made thereunder.

“**Material Modification**” shall be defined by the audit committee of the Company.

“**Related Party**”:

Any party shall be considered as related to the Company if:

- (i) such party is a related party under Section 2(76) of the Act; or
- (ii) such party is a related party under the applicable accounting standards; or
- (iii) such party is a related party under clause zb of SEBI Listing Regulations.

**Provided that** any person or entity belonging to the promoter or promoter group of the listed entity and holding twenty percent<sup>1</sup> or more of shareholding in the listed entity in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year shall be deemed to be a related party.<sup>2</sup>

*1. Shall be replaced with ten per cent or more which shall be effective from 1st April 2023*

*2. Shall be effective from 1st April 2022.*

“**Related Party Transaction**”

**A. Under Regulation 2(zc)**

A related party transaction (“RPT”) 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:

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. Sub-division or consolidation of securities;
  - iii. issuance of securities by way of a rights issue or a bonus issue; and
  - iv. buy-back of securities.

acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board:

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);

## **B. Under Section 188 of the Act**

As per section 188(1) of the Act, any contract or arrangement with a related party with respect to the following shall be considered as a RPT:

- a) sale, purchase or supply of any goods or materials;
- b) selling or otherwise disposing of, or buying, property of any kind;
- c) leasing of property of any kind;
- d) availing or rendering of any services;
- e) appointment of any agent for purchase or sale of goods, materials, services or property;

- f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- g) underwriting the subscription of any securities or derivatives thereof of the Company.

### **“Material Related Party Transaction”**

#### **A) Under Regulation 23 of SEBI LODR**

A transaction with a related party shall be considered material if the transaction/ transactions 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 the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

Notwithstanding the above, 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 five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

#### **Under Section 188 of the Act**

As per section 188 of the Act, a transaction shall be considered material if it exceeds such sum as prescribed under the Rules made under first proviso to section 188(1) of the Act as mentioned below, or any subsequent amendment thereto: .

(a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188 as mentioned above, with criteria as mentioned below –

(i) sale, purchase or supply of any goods or materials, 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 turnover of the 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 of the turnover of the 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-clauses (i) to (iv) above 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 half lakh rupees as mentioned in clause (f) of subsection (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 to above shall be computed on the basis of the Audited Financial Statement of the Company for preceding Financial year.

(2) In case of a wholly owned subsidiary, the resolution passed by the Company shall be sufficient for the purpose of entering into the transactions between the wholly owned subsidiary and the Company.

**“Office or Place of Profit”** means any office or place:

(i) where such office or place is held by a Director, if the Director holding it receives from the Company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(ii) where such office or place is held by an individual other than a Director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

**“Subsidiary company or subsidiary”** means a company as defined in Section 2(87) of the Act.

Any other term not defined herein shall have the same meaning as defined in the Act, LODR, Securities Contract Regulation Act or any other applicable law or regulation.

## 4. APPROVAL PROCESS

1) The Company will enter into any RPTs and subsequent material modifications only with the prior approval of the Audit Committee of the listed entity. Provided that only those members of the audit committee, who are independent directors, shall approve related party transactions.

- i. a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual consolidated turnover, as per the last audited financial statements of the listed entity;<sup>3</sup>
- ii. a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary;<sup>4</sup>
- iii. prior approval of the audit committee of the listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of SEBI (LODR) Regulations, 2015 are applicable to such listed subsidiary.

3. Shall be effective from April 01, 2022

4. Shall be effective from April 01, 2023

- a. The Audit Committee shall laydown the criteria for granting omnibus approval in line with the Policy on RPTs of the Company and such approval shall be applicable in respect of transactions which are repetitive in nature;
- b. The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely :-
  - i. repetitiveness of the transactions (in past or in future);
  - ii. Justification for the need of omnibus approval.
- c. Such omnibus approval shall specify the following:
  - Name(s) of the Related Party;
  - Nature of the transaction;
  - Duration of transaction;
  - Maximum amount of transaction that can be entered into;
  - The indicative base price / current contracted price and the formula for variation in the price, if any, and;
  - Such other conditions as the Audit Committee may deem fit.
- d. In such cases where the need for RPT cannot be foreseen and details as required above are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rupees one crore per transaction;
- e. 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;
- f. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.
- g. Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the Company.



- 2) The Audit Committee will have the discretion to recommend / refer any matter relating to the RPT to the Board for the approval. Further the following information shall be placed before the Audit Committee for review and approval of RPTs:
- a) Type, material terms and particulars of the proposed transaction;
  - b) 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);
  - c) Tenure of the proposed transaction (particular tenure shall be specified);
  - d) Value of the proposed transaction;
  - e) 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 (and for a RPT involving a subsidiary, such percentage calculated on the basis of the subsidiary's annual turnover on a standalone basis shall be additionally provided);
  - f) If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary:
  - g) details of the source of funds in connection with the proposed transaction;
  - h) where any financial indebtedness is incurred to make or give loans, inter corporate deposits, advances or investments,
    - nature of indebtedness;
    - cost of funds; and
    - tenure;
  - i) applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
  - j) the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
  - k) Justification as to why the RPT is in the interest of the listed entity;
  - l) A copy of the valuation or other external party report, if any such report has been relied upon;
  - m) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
  - n) Any other information that may be relevant.

### 3) Approval for Material RPTs:

#### a) Material RPTs falling under Regulation 23 of SEBI LODR:

All Material RPTs falling under Regulation 23 of SEBI LODR shall require approval of the shareholders of the Company by way of a resolution and no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.

Provided that prior approval of the shareholders of a listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party.

Explanation: For related party transactions of unlisted subsidiaries of a listed subsidiary as referred above, the prior approval of the shareholders of the listed subsidiary shall suffice.

However, the following transactions shall be exempted from obtaining approval of shareholders of the Company.

- i. Transactions between the Company and its wholly owned subsidiaries whose accounts are consolidated with the Company and placed before the shareholders for approval at the general meeting,
- ii. Transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

The notice being sent to the shareholders seeking approval for any proposed RPT shall, in addition to the requirements under the Companies Act, 2013, include the following information as a part of the explanatory statement:

- a) A summary of the information provided by the management of the listed entity to the audit committee as specified in point 2 above;
- b) Justification for why the proposed transaction is in the interest of the listed entity;

- c) Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary, the details specified under point 2(f) above; (The requirement of disclosing source of funds and cost of funds shall not be applicable to listed banks/NBFCs.)
- d) A statement that the valuation or other external report, if any, relied upon by the listed entity in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- e) Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis;
- f) Any other information that may be relevant.

b) Material RPTs falling under section 188 of the Act

All Material RPTs falling under section 188 of the Act shall require prior approval of the shareholders of the Company by way of a resolution.

Section 188 of the Act does not apply to transactions, which are entered into by the Company in its ordinary course of business and on an arm's length basis. Such transactions do not even require the approval of Board of Directors of the Company.

No member of the Company shall vote on any resolution, to approve any contract or arrangement which may be entered into by the Company, if such member is a related party.

- 4) All RPTs falling under section 188 of the Act, which is either not in the ordinary course of business or is not at arm's length or both, other than Material RPTs, shall also require approval of Board of Directors of the Company besides approval of the Audit Committee.

## 5. Decision regarding transaction in ordinary course of business and on arm's length basis

The Audit Committee or the Board shall, in respect of the RPTs referred to them for approval, shall after considering the materials placed before them, shall decide whether the transaction is in the ordinary course of business or at arm's length basis. In case the Audit Committee decides the transaction not being in the ordinary course of business or not on arm's length basis or is not able to arrive at such a decision, the same shall be referred to the Board for approval.

## 6. Disclosures & Reporting:

### A. Disclosure by Directors/ KMPs and Disclosures by the Company

1. All Directors/ KMPs are required to disclose the entities in which they or their relatives are or deemed to be interested, in the prescribed form.
2. Each Director and KMP of the Company shall promptly notify the Company of any material transaction or Relationship that could reasonably be expected to give rise to any conflict of interest.
3. The Company shall maintain Register of all the disclosures made by the Directors and KMPs in the prescribed form and containing prescribed particulars and after entering the particulars, such register or registers shall be placed before the next meeting of the Board and signed by all the directors present at the meeting.
4. The Company shall disclose the Policy on dealing with RPTs on its website and a weblink thereto shall be provided in the Annual Report.
5. Details of all material transactions with related parties shall be disclosed, quarterly in the Compliance Report on Corporate Governance, as required under listing agreement.
6. As per Section 188(2) of the Act, every contract or arrangement entered into by the Company under Section 188(1) shall be referred to in the Board's report to the

shareholders along with the justification for entering into such contract or arrangement.

## B. Disclosures of Related Party Transactions entered with the Company

Each Director and KMP of the Company is responsible for providing declaration/ notice in the prescribed Form to the Company about RPT(s) involving the Company and him/ her or an entity wherein he/ she or his / her relative is interested, including any additional information about the transaction that the Company may reasonably request. The Company will determine whether the transaction does, in fact, constitute a RPT requiring compliance with this Policy.

The Company shall disclose details of Related Party transactions every six months within 15 days<sup>5</sup> from the date of publication of its standalone and consolidated financial results<sup>6</sup> to the Stock Exchanges and publish the same on its website.

*5. Provided further that the listed entity shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results which shall be effective from 1st April, 2023*

*6. Shall be effective from 1st April, 2022.*

## 7. Guiding Principles for approval of a Related Party Transaction by the Board/ Audit Committee thereof

To review a RPT, the Board/ Audit Committee will be provided with all the relevant information pertaining to the RPT, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and any other matter, as may be required. In determining whether approval needs to be accorded to a RPT, the Board/ Audit Committee will consider the following factors:

1. Whether the terms of the RPT are fair to the Company and would apply on the same basis if the transaction did not involve a Related Party;
2. Whether there are any compelling business reasons for the Company to enter into the RPT and the nature of alternative transactions, if any;

3. Whether the RPT would impair the independence of an otherwise Independent Director;
4. Whether the RPT would present an improper conflict of interest for any Director, or KMP of the Company, taking into account the size of the transaction, the overall interest of the Director, KMP or other Related Party, the direct or indirect nature of the Director, KMP or other Related Party's interest in the transaction and the on going nature of any proposed relationship and any other factors the Board/ Audit Committee deem fit to consider.

## 8. Consequences of non-compliance of Policy for Related Party Transactions:

1. As per section 188(3) of the Act, where any contract or arrangement is entered into by a Director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders and if the contract or arrangement is with a related party to any Director, or is authorised by any other Director, the Directors concerned shall indemnify the company against any loss incurred by it.
2. In case the Board/ Audit Committee determines not to ratify a RPT that has been commenced without approval, the Board/ Audit Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification. In connection with any review of a RPT, the Board/ Audit Committee has authority to modify or waive any procedural requirements of this Policy.
3. As per section 188(4) of the Act, without prejudice to anything contained in section 188(3) of the Act it shall be open to the Company to proceed against a Director or any

other employee who had entered into such contract or arrangement in contravention of the provisions of section 188 of the Act for recovery of any loss sustained by it as a result of such contract or arrangement.

4. As per section 188(5) of the Act, any Director or any other employee of a Company, who had entered into or authorised the contract or arrangement in violation of the provisions of section 188 of the Act shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both.
5. Non-compliance of this Policy by the Company, Director, KMP or any other employee or officer of the Company may also lead to penal consequences under the LODR, Securities Contract Regulation Act, 1956 or other applicable provision of any other relevant legislation.

## 9. Review and amendments

The Board, may review or amend this Policy at least once every three years or at any time and establish further rules or procedures, periodically and as required under the Act or SEBI LODR, to give effect to this Policy.