



BHARAT HEAVY ELECTRICALS LIMITED

POLICY ON RELATED PARTY TRANSACTIONS

AND

**ON MATERIALITY OF RELATED PARTY
TRANSACTIONS**

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1.0 INTRODUCTION:

The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (erstwhile Clause 49 of Equity Listing Agreement) have laid down extensive requirements to be fulfilled in case of Related Party Transactions. It also specified the requirement to formulate a Policy on Materiality of Related Party Transactions and on dealing with Related Party Transactions. Accordingly, the Company adopted this Policy dealing with the identification, review and approval of Related Party Transactions.

In line with the SEBI (Listing Obligations and Disclosure Requirements) (LODR) Regulations, 2015 and amendments thereof, the Board hereby adopts the revised “Policy on Related Party Transactions and on Materiality of Related Party Transactions” of BHARAT HEAVY ELECTRICALS LIMITED, which shall come into force with effect from 1st day of April, 2022 unless otherwise specified in the Policy.

2.0 APPLICABILITY:

This Policy shall be applicable to all Related Party Transactions between the Company and its Related Parties.

3.0 SCOPE AND PURPOSE:

The Policy has been framed to comply with the applicable provisions of Companies Act, 2013, and of the SEBI (LODR) Regulations. Any subsequent amendment/modification in the applicable provisions of Companies Act, 2013 or the rules made thereunder or in the SEBI (LODR) Regulations or any other relevant statute in this regard shall be deemed to be automatically incorporated in this Policy.

4.0 DEFINITIONS:

“Act” shall mean the Companies Act 2013, as amended and the Rules framed thereunder, including any modifications, amendments, clarifications, circulars or re-enactment thereof.

“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”, in relation to another company, means a company in which that other company has a significant influence, but which is not a Subsidiary company of the Company having such influence and includes a joint venture company.

Explanation- For the purposes of this clause, a) “Significant Influence” means Control of at least twenty percent of total voting power or control of, or participation in business decisions under an agreement b) “joint venture” means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement .

“Board Level Audit Committee” or “Committee” means “Audit Committee” of the Board of Directors of the Company.

“Board of Directors” or “Board” means the collective body of the Directors of the Company.

“Company” means Bharat Heavy Electricals Limited

“Key Managerial Personnel” means Key Managerial Personnel of the Company in terms of the Companies Act, 2013 and the Rules made thereunder.

“ Subsidiary 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;

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

“Material Modifications” shall mean modification of more than 30% in the approved amount of related party transactions.

“Material Related Party Transactions”: 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 percent of the annual consolidated turnover of the company as per the last audited financial statements of the company, whichever is lower.

Further, 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 company as per the last audited financial statements of the company.

“Policy” means “Policy on Related Party Transactions and on Materiality of Related Party Transactions” of the Company.

“Related Party” means a person or an entity:

- (i) which is a related party under Section 2 (76) of the Companies Act, 2013; or
 - (ii) which is a related party under the applicable Indian Accounting Standards
- A. As per Section 2 (76) of the Companies Act 2013 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 percent 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 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 venturer of the Company
- (ix) Any person or entity forming a part of the promoter or promoter group of the Company; or any person or any entity, holding equity shares:
 - (i) of twenty percent or more; or
 - (ii) of ten percent or more, with effect from April 1, 2023;
in the company 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
- (x) such other person as may be prescribed

B. Related Parties under the applicable Indian Accounting Standards are as follows:

A Related Party is a person or entity that is related to the Company.

- (a) a person or a close member of that person's family if that person*
 - (i) has control or joint control over the Company;*
 - (ii) has significant influence over the Company; or*
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company*
- (b) an entity if*
 - i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);*
 - ii) the entity is an associate or joint venture of the Company (or of a member of a group of which the company is a member) or vice-versa;*
 - iii) the entity and the Company are joint ventures of the same third party*
 - iv) the entity is a joint venture of the second entity and the Company is an associate of the second entity or vice-versa*
 - v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company*
 - vi) the entity is controlled or jointly controlled by a person identified in (a) above*
 - vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)*
 - viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company*

Indian Accounting Standard 24 defines certain terms which are also pertinent for ascertaining related party relationships and the same are as follows

<i>Related party transaction</i>	<i>A transfer of resources, services or obligations between related parties regardless of whether or not a price is charged</i>
<i>Control</i>	An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee
<i>Significant Influence</i>	<i>Power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies</i>
<i>An Associate</i>	An entity over which the investor has significant influence
<i>A Joint Venture</i>	joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement
<i>Joint Control</i>	Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

“Related Party Transactions”: Section 188 of the Companies Act, 2013 encompasses all contracts or arrangements with a Related Party with respect to:

- 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:

As per SEBI (LODR) Regulations, Related Party Transaction means a transaction involving a transfer of resources, services or obligations between:

- (i) company or any of its subsidiaries on one hand and a related party of the company or any of its subsidiaries on the other hand; or
- (ii) company 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 company 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 transactions as specified in the Listing Regulations shall not be a related party transaction

“Relatives”, 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 person as:
 - (a) Father (including step- father)
 - (b) Mother (including step- mother)
 - (c) Son (including step- son)
 - (d) Son's wife
 - (e) Daughter
 - (f) Daughter's husband
 - (g) Brother (including step- brother)
 - (h) Sister (including step- sister)

“Transaction”: A transaction with a related party shall be construed to include single transaction or a group of transactions in a contract.

5.0 REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS

5.1 Board Level Audit Committee

All Related Party Transactions and subsequent material modifications shall have prior approval of the Board Level Audit Committee of the company including independent Directors, members of the Committee.

While considering any transaction, the Committee shall take into account all relevant facts and circumstances including the terms of the transaction, the business purpose of the transaction, the benefits to the Company, or any other relevant matters.

The Board Level Audit Committee may grant omnibus approval for Related Party Transactions which are (i) repetitive in nature; (ii) in ordinary course of business; (iii) are on arm's length basis, and (iv) within the material limits (v) maximum value per transaction: Rs 10 Crs. Maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a Financial Year is Rs 400 Crs.

The Board Level Audit Committee has laid down criteria for granting omnibus approval in line with this policy. The omnibus approval where granted shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

The approval shall specify the following:

- a) Name(s) of the related party and its relationship with the company or its subsidiary
- b) Nature of transaction
- c) Maximum amount of transaction that can be entered into
- d) Period of transaction
- e) The indicative base price/current contracted price and the formula for variation in the price, if any
- f) Justification as to why the RPT is in the interest of the company
- g) Any other condition as deemed fit and proper by the Board Level Audit Committee

Provided that where the need for the RPT cannot be foreseen and details as mentioned above are not available, the Board Level Audit Committee may grant omnibus approval for such transaction subject to their value not exceeding Rs 1 Cr. per transaction.

The Board Level 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.

A related party transaction to which the subsidiary of the company is a party but the company is not a party, shall require prior approval of the audit committee of the company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten percent of the annual consolidated turnover, as per the last audited financial statements of the company;

With effect from April 1, 2023, a related party transaction to which the subsidiary of the company is a party but the company is not a party, shall require prior approval of the audit committee of the company if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten percent of the annual standalone turnover, as per the last audited financial statements of the subsidiary;

Prior approval of the audit committee of the company shall not be required for a related party transaction to which the listed subsidiary is a party but the company is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of SEBI (LODR) (Sixth Amendment) Regulations 2021 are applicable to such listed subsidiary.

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

5.2 Board of Directors

All cases where the Related Party Transactions are not in the ordinary course of business and/or are not on arm's length basis but within the prescribed limits as per the Companies (Meetings of Board & its Powers) Rules, 2014, shall be brought before the Board of Directors for approval through Board Level Audit Committee.

All (a) Related Party Transactions that are beyond the prescribed limits as per Companies (Meetings of Board & its Powers) Rules, 2014 and being not in the ordinary course of business of the company and/ or not on an arm's length basis, (b) Material Related Party Transactions, requiring the approval of the shareholders, shall also need to be approved by the Board.

Such approval of Board may be obtained at a duly convened meeting.

5.3 Shareholders

All (a) Related Party Transactions that are beyond the prescribed limits as per Companies (Meetings of Board & its Powers) Rules, 2014 and being not in the ordinary course of business of the company and/ or not on an arm's length basis, (b) Material Related Party Transactions, shall require prior approval of BHEL shareholders through resolution (after Board's approval).

Provided that prior approval of the shareholders of the company shall not be required for a related party transaction to which the listed subsidiary is a party but the company is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of SEBI (LODR) (Sixth Amendment) Regulations 2021 are applicable to such listed subsidiary.

5.4 Exemptions under the Companies Act, 2013 and SEBI (LODR) Regulations, 2015:

The requirement of passing the resolution by the shareholders as per the Companies Act, 2013 and requirement of approval of the Audit Committee and the shareholders shall not be applicable: -

- a) for transactions entered into between two government companies;
- b) 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;
- c) for 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.

Explanation (i): For the purpose of Clause (a) "Government Company(ies)" shall have the same meaning as defined in Section 2(45) of the Companies Act, 2013."

6.0 DISCLOSURES

All disclosures pertaining to Related Party Transactions required under the Companies Act and SEBI (LODR) Regulations shall be made accordingly.

7.0 LIMITATION

In the event of any conflict between the provisions of this Policy and of SEBI (LODR) Regulations / Companies Act, 2013 or any other statutory enactments, rules, then the provisions of the SEBI (LODR) Regulations / Companies Act, 2013 or other statutory enactments, rules, as the case may be shall prevail over this Policy and shall be adhered to accordingly by all concerned.

8.0 POLICY ON MATERIAL SUBSIDIARIES

A subsidiary shall be considered as material if the income or net worth of the subsidiary exceeds ten per cent of the consolidated income or net worth respectively, of the Company as per the audited balance sheet of the previous financial year.

The company shall not dispose of shares in its material subsidiary which would reduce its shareholding (either on its own or together with other subsidiaries) to less than 50% or cease the exercise of control over the subsidiary without passing a special resolution in its General Meeting except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal.

Prior approval of shareholders by way of special resolution shall be obtained for selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a Court/Tribunal.

9.0 REVIEW OF THE POLICY

- i) This policy be reviewed and updated by the Board of Directors at least once in every three years after Audit Committee recommendation.
