

# ALKALI METALS LIMITED

## RELATED PARTY TRANSACTIONS POLICY

### A. Regulatory Requirement

Alkali Metals Limited (the “Company” or “AML”) recognizes that Related Party Transactions (as defined below) can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Company’s and its stockholders’ best interests. Therefore, this policy regarding the review and approval of Related Party Transactions has been adopted by the Company’s Board of Directors in order to set forth the procedures under which certain transactions must be reviewed and approved or ratified.

Companies Act, 2013 (2013 Act), places a lot of emphasis on Related Party Transactions (RPT’s). Provisions of the 2013 Act along with the relevant Rules governing RPT’s have come into effect from April 1, 2014.

Revised Clause 49 (Clause 49) under the Equity Listing Agreement also provides additional requirements for RPTs and comes into effect from October 1, 2014.

### B. RPTs – Framework for identification and internal recording

#### *Relatives and Related Party Identification*

Under the 2013 Act, “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 other in the manner mentioned below:
  - a. Father (Father includes step-father)
  - b. Mother (Mother includes the step-mother)
  - c. Son (Son includes the step-son)
  - d. Son’s wife
  - e. Daughter
  - f. Daughter’s husband
  - g. Brother (Brother includes the step-brother)
  - h. Sister (Sister includes the step-sister)

Under the 2013 Act, “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

Nothing in (vi) and (vii) above 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;
- ix. such other person as may be prescribed i.e. a director other than independent director or key managerial personnel of the holding company or his relative with reference to a company

The term 'total share capital' given in the definition of subsidiary company now includes equity and convertible preference shares in the denominator to confirm as to whether more than half of the total share capital is controlled by the Company either by itself or together with subsidiary Companies. Likewise, the term 'total share capital' given in the definition of an associate company now includes equity and convertible preference shares in the denominator to confirm as to at least 20% of the total share capital is controlled by the Company to gain significant influence – the rebuttable presumption of significant influence by holding 20% capital under the Accounting Standards for an Associate Company is not available under the 2013 Act. Accordingly, controlling at least 20% of total paid up capital or of business decisions under an agreement covers the entity as an associate although significant influence may not be exercisable under the Accounting Standards and vice versa. An Associate Company under the 2013 Act now includes a Joint Venture Company as well.

Definition of "Control" under the 2013 Act now includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

The definition of Related Party under Clause 49 is more exhaustive and covers the definition under the applicable Accounting Standards & the Companies Act 2013.

#### *Record of Related Parties – Responsibility*

Related party identification including the relatives of Directors and Key Managerial Personnel (KMPs) will be the responsibility of the Managing Director/CFO/Company Secretary. The list of related parties will be maintained by the Secretarial Department based on inputs / data received from the Directors and KMPs, SPAs/JV agreements entered into by the Company, capital structure, investment made by the Company etc. While preparing the list of related parties, following will be relevant:

- i) Exclusion of person from the list of relatives as a consequence of change in definition of "relative"
- ii) List of companies to be considered as subsidiaries, associates and joint ventures based on the change in the definitions including that of subsidiary company and associate company
- iii) Ongoing changes

It will be the responsibility of the Directors and KMPs to keep the Company updated immediately if there is a change in any of the declarations provided at the beginning of the year.

## RPTs

The Companies Act, 2013 covers the following RPTs:

- 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:

As per Clause 49, a RPT is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged. As per the explanation, transaction with a related party shall include a single transaction or a group of transactions in a contract.

The requirement under Clause 49 of Listing Agreement requires that for a listed Company, all RPTs are to be pre-approved by the Audit Committee. Hence, before entering into a RPT, the Company has to provide with all the information as required pursuant to applicable laws and rules and get approval of the Audit Committee.

Along with the above information, the CFO and/or the Company Secretary will prepare a management note with justification for entering into the contract/arrangement/transaction which will also include whether the transaction is in the ordinary course of business and at arm's length.

### C. Transactions with Related Parties – Internal Control framework

#### *Provisions of the 2013 Act*

The 2013 Act requires a prior approval of RPTs which are not in the ordinary course of business or are not at arm's length or both, by the Board as well as by shareholders by a special resolution if the RPT exceeds following thresholds, with concerned related party abstaining from voting (Section 188):

#### **Nature of transaction**

Sale, purchase or supply of any goods or materials directly or through appointment of agents [Section 188 (1) (a) & (e)]

#### **Transaction value**

Lower of:  
> 10% of annual turnover or  
Rs 100 crore

Buying, selling or disposing of property of any kind directly or through appointment of agents [Section 188 (1) (b) & (e)]

Lower of:  
> 10% of net worth or  
Rs 100 crore

Leasing of any kind of property [Section 188 (1) (c)]	Lower of: > 10% of annual turnover or > 10% of net worth or Rs 100 crore
Availing or rendering of any services directly or through appointment of agents [Section 188 (1) (d) & (e)]	Lower of: > 10% of annual turnover or Rs. 50 crore
Appointment to any office or place of profit in the company, its subsidiary company or associate company [Section 188 (1) (f)]	Monthly remuneration > Rs 250,000
Remuneration for underwriting the subscription of any securities in or derivatives thereof [Section 188 (1) (g)]	> 1% of net worth

Turnover or Net Worth shall be as per annual Audited Financial Statement of the preceding Financial year.

The Companies Act, 2013 also requires that 'all' RPTs, including any modification thereto, are approved by the Audit Committee. (Section 177).

#### *Requirements under SEBI Listing Agreement*

In terms of Clause 49 of the Equity Listing Agreement, the Audit Committee will approve the RPTs in following manner:

The revised norms require all RPTs to be preapproved by the Audit Committee. However, the Audit Committee is empowered to grant omnibus approval for RPTs to be entered into by the Company on following conditions:

- a. The Audit Committee shall lay down the criteria for granting the omnibus approval in line with the policy on Related Party Transactions of the company and such approval shall be applicable in respect of transactions which are repetitive in nature.
- b. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the company;
- c. Such omnibus approval shall specify following:
  - (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;

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. 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 1 year and shall require fresh approvals after the expiry of 1 year.

## *Material RPT*

Listing Agreement requires approval of all material RPTs by the shareholders through a special resolution, with related parties abstaining from voting. A transaction is considered material if the transaction/transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the consolidated annual turnover as per the last audited financial statements of the company (Material RPT).

The revised norms are applicable to all prospective transactions. All existing material related party contracts or arrangements which are likely to continue beyond March 31, 2015 will be placed by the management for approval of the shareholders not later than the first general meeting subsequent to October 1, 2014.

## *Arm's length*

The term Arm's length transaction is defined under the 2013 Act as follows:

"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".

However, there is no guidance provided in the Companies Act, 2013 or clause 49 to determine arm's length price. Pricing may not be the only determinant of a transaction being at arm's length though it is an important factor. Therefore, the company would apply judgment to conclude whether a transaction can be considered to be on an arm's length basis. The following has been considered to be helpful in concluding whether a transaction is on an arm's length basis:

- The transaction is as per the prevailing price list / pricing policy / market price / at the same price (or margin) at which entered into with independent third parties
- The transaction is in line with third party quotations / bids
- The transaction is at a price / rate in line with Government guidelines / industry body / specifications where relevant
- Cost sharing arrangements, where costs are shared based on the benefit derived
- Taking assistance of an expert – valuation specialist
- Principles under the transfer pricing guidelines (considering whether the pricing would be in line with what would have been charged to an unrelated party, without any conflict of interest)

Some of the cases covered in the examples covered in Standard on Auditing 550 on Related Parties (SA 550) below also cover pricing and therefore will be considered relevant for arm's length pricing as well.

## *Ordinary course of business*

The term ordinary course of business is not defined under the Companies Act, 2013 Act or the Rules there under. Therefore, it would depend on facts and circumstances of each case. The company would therefore exercise judgment to conclude whether a transaction can be considered to be in the ordinary course of business.

Examples of transactions that the Company would consider to be in the ordinary course of business would include those that form part of the Revenue from Operations, the costs of goods sold and the normal expenses incurred for operating the business (considering the business rationale and without any conflicted terms and conditions *as compared to* transactions with independent third parties).

A transaction proposed to be disclosed as part of other income or other expenses, exceptional or extraordinary will generally be assessed on a case to case basis as to whether they could be considered to be in the ordinary course of business.

The Application and Other Explanatory Material of SA 550 on Related Parties issued by the ICAI provides examples of transactions that can be considered to be outside the entity's *normal* course of business (akin to *ordinary* course of business). Although these are not conclusive, they will be considered as guidance to be used, based on facts and circumstances, to conclude as to whether a transaction can be considered to be in the ordinary course of business.

The examples provided in SA 550 that may be considered to be outside the entity's normal course of business include:

- Complex equity transactions, such as corporate restructurings or acquisitions.
- Transactions with offshore entities in jurisdictions with weak corporate laws.
- The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
- Sales transactions with unusually large discounts or returns.
- Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- Transactions under contracts whose terms are changed before expiry.

Based on the results of the analysis, the CFO /Company Secretary would bucket the transactions into the following 4 categories:

- (i) In the ordinary course of business and at arm's length
- (ii) Not in the ordinary course of business but at arm's length
- (iii) In the ordinary course of business but not at arm's length
- (iv) Not in the ordinary course of business and not at arm's length basis

For items in (i) to (iv) prior consent of Audit Committee will be required under the Companies Act, 2013. However, for items in (ii) to (iv), in addition to prior consent of Audit Committee, prior approval of Board of Directors and prior approval of the shareholders will also be required if the transaction to be entered into individually or taken together with previous transaction during the financial year exceeds the threshold provided above or such limits as may be amended by Ministry of Corporate Affairs from time to time.

For item (i) to (iv) above, prior approval of the audit committee alone will be required as per Clause 49 unless such transaction is covered by an omnibus approval granted by the Audit Committee from time to time. If the transaction with a related party is a Material RPT, then such Material RPT shall require approval of the Board and also that of shareholders through special resolution and all related parties shall abstain from voting on such resolutions irrespective of whether the entity is a party to the particular transaction or not..

The CFO will bring such Material RPT to the attention of the Audit Committee so that the Board and Shareholders' Approval can be sought, if required.

### **Related Party, Relatives and RPTs – System and Process Controls**

In line with the requirements of Clause 49 of the Listing Agreement and Companies Act, 2013 the Company will follow the steps mentioned below, for approval of RPTs:

- a. Place all RPTs irrespective of them being in the ordinary course of business or at arm's length before the Audit Committee in their meetings.
- b. Based on the Company policy, any transaction with parties covered in a restricted list i.e. entities with whom the Company cannot enter into contracts or transactions unless approved, will not be undertaken unless confirmation has been obtained from the Secretarial Department that such transactions are pre approved by the Audit Committee.
- c. Based on declaration received from the Directors and KMPs list of all related parties and their relatives will be updated. One master list will be maintained by the secretarial team of all Related Parties.
- d. Immediately after a change occurs, the relevant related party is required to provide the update to the Company and the Company Secretary will accordingly update the related party list and an intimation will be sent to CFO.
- e. A note with relevant particulars will be perused by the Audit Committee for approval of the RPTs.
- f. On a quarterly basis, the transactions of all the related parties will be placed before the Audit Committee and Board.
- g. The Company will seek omnibus approval of the Audit Committee on a yearly basis for RPTs of repetitive in nature provided required information is available.
- h. Approval of shareholders will be obtained for all material RPT's. Materiality in this regard means transaction exceeding 10% of annual consolidated Turnover as per the last audited accounts.

#### **D. Voting on the resolution for approval of RPT**

- a. No Director will participate in any audit committee meeting / Board meeting discussion for approval of RPT in which he / she is interested.
- b. No interested / concerned related party with whom transaction is to be entered will vote on the resolution for approval of RPT in the general meeting and all related parties will not vote in a resolution for approval of Material RPT.

#### **E. Audit Committee approval mechanism**

The following will require approval of the Audit Committee:

All RPTs will be submitted to the Audit Committee for prior approval irrespective whether such transactions are in the ordinary course of business or at arm's length or not.

**Prior approval:** Where the Company enters into a contract / transaction with a related party, which stipulates details of every transaction like nature of the transaction, period of transaction, contract price or methodology of price determination, maximum amount of transaction, credit terms etc., prior approval once given by the Audit Committee would suffice and Audit Committee would only note the transactions that are entered into pursuant to such master agreement and will not require any additional approval of the Audit Committee.

**Omnibus approval:** Omnibus approval of Audit Committee will be taken for transactions with related parties where besides mentioning names, nature of transaction, period of transaction, maximum amount of transaction there will also be a mention of the base / contracted price and formula for variation in the price. This approval will be valid for a period of 1 year.

**Omnibus blanket approval:** Omnibus blanket approval of Audit Committee will be taken for transactions with related parties subject to a cap of Rs. 1 crore per transaction with a validity of 1 year to cover situations where transaction cannot be foreseen and details Omnibus approval as above are not available.

#### **F. Board and Shareholders' approval mechanism**

The following transactions will require approval of the Board of Directors and Shareholders

- a. Not in the ordinary course of business but at arm's length
- b. In the ordinary course of business but not at arm's length
- c. Not in the ordinary course of business and not at arm's length basis
- d. Material RPT's i.e. transactions exceeding 10% of annual consolidated Turnover as per the last audited accounts - whether in the ordinary course of business or at arm's length or not

#### **G. Disclosure**

- a. The Company will disclose to the Stock Exchange along with the compliance report on corporate governance on a quarterly basis details of all Material RPTs with related parties.
- b. The Company will disclose the Policy on dealing with RPTs on its website and also in the Annual Report.
- c. Director's report will contain details of contracts or arrangements or transactions that are (i) not at arm's length basis and (ii) material and at arm's length basis.