

Related Party Transaction Policy

I Preamble

Village Financial Services Ltd., now VFS Capital Ltd, is registered as a Non-Banking Financial Company – Micro Finance Institution (NBFC-MFI) under the Reserve Bank of India (RBI) Act, 1934, and is a Non-Deposit-taking Systemically Important NBFC. The Company is professionally managed, with good corporate governance and an internal control system in place.

This Policy has been framed to comply with the requirements of the Reserve Bank of India (RBI) Master Direction – Non-Banking Financial Company – Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, ('Directions') vide its notification no. DNBR. PD. 008/03.10.119/2016-17 dated September 1, 2016, including any amendment, revision in the directions made thereunder and issuance of any guidelines, notification and circular by the RBI in this regard from time to time.

This Policy will guide the Company to effectively comply with the Companies Act, 2013, Accounting standards as issued by the Institute of Chartered Accountants of India, Income-tax Act and such other statutes as may be put in place regarding Related Party Transactions.

The Board of Directors ('the Board') of the Company understands the importance of stakeholders' confidence and trust in the Company. To preserve the same with transparency and to ensure that there is no conflict of interest inflicting any apprehension in the minds of the stakeholders, the Board of the Company, acting upon the recommendation of its Audit Committee (the Committee), has adopted the following policy and procedures with respect to Related Party Transactions of the Company.

II. Scope

This Policy shall be applied in:

1. Identifying related party(ies), updating and maintaining the database of such persons/entities;
2. Ascertaining that the transactions entered with the related party(ies) is/are in 'ordinary course of business' and at 'arm's length basis';
3. Identifying related party(ies) transactions;
4. Obtaining approvals before entering into any related party(ies) transactions;
5. Determining the disclosures/compliances to be adhered to in relation to the related party(ies) transactions.
- 6.

III. Definitions

1. **"Act"** means the Companies Act, 2013.
2. **"Arm's Length Transactions"** means a transaction between two related parties conducted as if they were unrelated so that there is no conflict of interest.
3. **"Arm's Length Price"** means a price that is applied or proposed to be applied in a transaction between persons other than associated enterprises in uncontrolled conditions.
4. **"Key Managerial Personnel (KMP)"** is a person as defined in sub-clause (51) of Section 2 of the Act.
5. **"Related Party"** is a party as defined in sub-clause (76) of Section 2 of the Act.
6. **"Related Party Transaction"** or **"RPT"** means transactions as given under clause (a) to (g) sub-section (1) of Section 188 and shall include:
 - 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.
 - g) Underwriting the subscription of any securities or derivatives thereof of the Company.

Notwithstanding the foregoing, the following shall not be deemed as Related Party Transactions for the purpose of this Policy:

- a) Any transaction that involves providing compensation to a Director or KMP, in accordance with the provisions of the Act, in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
- b) Reimbursement made of expenses incurred by a Related Party for the business purpose of the Company.
- c) Any other exception consistent with the Applicable Laws, including any rules or regulations made thereunder and does not require prior approval by the Audit Committee.

7. **“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 stepfather)
- d) Mother (including stepmother)
- e) Son (including stepson)
- f) Son’s wife
- g) Daughter
- h) Daughter’s husband
- i) Brother (including stepbrother)
- j) Sister (including stepsister)

8. **“Ordinary Course of Business”** shall mean any matter which transpires as a matter of normal and incidental daily customs and practices in business and/or something which is done as a matter of corporate historical practice, in the ordinary course of business and shall include:

- a) transactions covered in the ‘main objects’ or the ‘matters which are necessary for furtherance of the objects’ as envisaged in the Memorandum of Association of the Company;
- b) transactions which are usually carried on by the Company;
- c) transactions which have been done by the Company regularly in the last five (5) years;
- d) transactions done with a Related Party on a similar basis as if a third party;
- e) transaction or activity that is necessary, normal, regular and incidental to the business and involves a significant amount of money or managerial resources that generates income for the Company.

Identification of Related Party and Related Party Transactions

1. If a Director, KMP wishes to enter into a Related Party Transaction with the Company involving either him/her or his/her Relative, shall give notice to the Company along with all relevant details and documents.
2. Notice of any Related Party Transactions, referred above shall be given well in advance so that the Company has adequate time to obtain additional information or documents about the proposed Related Party Transactions, if necessary, which is required to be placed before the Audit Committee to enable it to approve the said transactions.
3. Every Director and KMP shall make an annual disclosure as required under Section 184(1) of the Act read with applicable rules made thereunder as may be amended from time to time.
4. Every Director and KMP shall also promptly intimate any change in the annual disclosures mentioned above.

IV. Review and Approval of Related Party Transactions

1) Approval of the Audit Committee

- A. Every Related Party Transaction shall be subject to the prior approval of the Audit Committee. The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following guidelines:
- a) Audit Committee shall consider the following factors/criteria for granting omnibus approval after obtaining approval of the Board of Directors.

SI No.	Particulars
(i)	Repetitiveness of the transactions (in past or future)
(ii)	The maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year
(iii)	The maximum value per transaction which can be allowed
(iv)	Extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval
(v)	Review, at such intervals as the Audit Committee may deem fit, Related Party Transactions entered into by the Company pursuant to each of the omnibus approval made
(vi)	Transactions that cannot be subject to the omnibus approval by the Audit Committee
(vii)	Justification for the need for omnibus approval and in the interest of the Company

- b) The omnibus approval given by the Audit Committee shall specify (i) the name/s of the Related Party(ies), (ii) nature of transaction/relationship, (iii) duration/period of transaction, (iv) the maximum amount of transaction that can be entered into (v) the indicative base price/current contracted price and the formula for variation in the price if any, (vi) material terms of the contract with value, if any, (vii) Name of the Interested Party/Director/KMP/Relative, (viii) brief particulars of the contract, and (ix) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction. Provided that where a need for Related Party Transaction cannot be foreseen and details mentioned above are not available, Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding Rs 1 crore per transaction.
- c) The omnibus approval shall be valid for a period of one (1) financial year and shall require fresh approval after the expiry of such financial year.
- d) Omnibus approval shall not be granted for transactions in respect of selling or disposing of the undertaking of the Company.
- e) In determining whether to approve a Related Party Transaction, the Audit Committee shall consider (among other aspects it deems relevant), if there are clearly demonstrable reasons from the Company's business point of view, to enter into a transaction with a Related Party(ies).
- f) Audit Committee shall review, on a yearly basis, the details of RPTs entered into by the Company pursuant to each of the omnibus approval given.

- B. In case of a transaction other than transactions referred to in Section 188 of the Act, and where the Audit Committee does not approve the transaction, it shall make its recommendations to the Board.
- C. In case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the Company without obtaining the approval of the Audit Committee, and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee, and if the transaction is with the related party to any director or is authorized by any other director, the director concerned shall indemnify the Company against any loss incurred by it.
- D. Any member of the Audit Committee who has a potential interest in any Related Party Transaction shall abstain from discussion and voting on the approval of the related party transaction.
- E. Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of the Audit Committee:
 - 1. Any transaction that involves providing compensation to a director or KMP in connection with his or her duties to the Company or any of its subsidiaries or associates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.
 - 2. Any transaction in which the Related Party's interest arises solely from ownership of securities issued by the Company and all holders of such securities receive the same benefits pro rata as the Related Party.
 - 3. Transaction(s) as listed below undertaken by the Independent Director with the Company or its holding, subsidiary, or associate company or their promoters or directors during the year:
 - a) Transaction(s) done in Ordinary Course of Business and on Arm's Length basis or at Arm's Length Price
 - b) Receipt of remuneration by way of sitting fees
 - c) Reimbursement of expenses for attending Board Meeting and/or Meetings of Committee of Directors
 - d) Any profit related commission as approved by members.
 - 4. Any transaction between a holding company and its wholly-owned subsidiary company, other than a transaction referred to in Section 188 of the Act.

In connection with any review of a Related Party(ies) Transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy, subject to compliance with the applicable legal provisions.

2) Approval of the Board of Directors

- A. The following Related Party(ies) Transactions shall be placed before the Board of Directors for approval, after the approval of the Audit Committee:
 - 1. Related Party(ies) Transactions referred by the Audit Committee;
 - 2. Related Party(ies) Transactions not on Arm's Length basis or at Arm's Length Price, and/or;
 - 3. Related Party (ies) Transactions not in the Ordinary Course of Business.
- B. The agenda of the Board meeting at which the resolution is proposed to be moved shall disclose-
 - 1. the name of the Related Party(ies) and nature of the relationship;
 - 2. nature, duration of the contract and particulars of the contract or arrangement;
 - 3. the material terms of the contract or arrangement, including the value, if any;

4. any advance paid or received for the contract or arrangement if any;
5. 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
6. 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
7. any other information relevant or important for the Board to decide on the proposed transaction in line with the applicable legal requirements.

C. Any Director interested in any contract or arrangement with a related party shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement.

1. Approval of the Shareholders

A. Any Related Party Transaction that is not in the Ordinary Course of Business and/or not on Arm's Length Basis or at Arm's Length Price, and/or crosses prescribed threshold limit for as per the Act will require prior approval of the Shareholders.

SI No.	Transaction	Threshold
(i)	Sale, purchase or supply of any goods or materials, directly or through the appointment of an agent	amounting to 10% or more of the turnover of the Company.;
(ii)	Selling or otherwise disposing of or buying property of any kind, directly or through the appointment of an agent	amounting to 10% or more of the net worth of the Company.;
(iii)	Leasing of property of any kind	Amounting to 10% or more of turnover of the Company.
(iv)	Availing and rendering of any kind of services, directly or through the appointment of an agent	Amounting to 10% or more of the turnover of the Company.
(v)	Appointment of any person in the office or any place of profit in the Company, its subsidiary or associate Company	at a monthly remuneration exceeding Rs. 2,50,000;
(vi)	Remuneration for underwriting of subscription of any securities or derivatives of the Company	>1% of the net worth of the Company.

The limits specified shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

The turnover or net worth referred to in the table above shall be computed on the basis of the audited financial statement of the preceding financial year.

B. The explanatory statement to be annexed to the notice of a general meeting convened shall contain the following particulars, namely:

1. Name of the Related Party(ies)
2. Name of the Director or Key Managerial Personnel who is related, if any
3. Nature of relationship

4. Nature, material terms, monetary value and particulars of the contract or arrangement
5. Any other information relevant or important for the members to decide on the proposed resolution

The approval policy framework is given below:

Audit Committee Approval	Board Approval	Shareholders' Approval
All Related Party (ies) Transactions	Related Party(ies) Transactions referred by Audit Committee for approval of the board. Related Party (ies) Transactions not in the Ordinary Course of Business and not on Arm's Length basis or at Arm's Length Price.	Approval by Ordinary resolution for Related Party Transactions not in Ordinary Course of Business and/or not at Arm's length basis or at Arm's length and/or crosses prescribed threshold limit as per the Act.

- C. No member of the Company shall vote on such resolution to approve any contract or arrangement which may be entered into by the Company if such member is a related party. Provided also that nothing contained in the second proviso shall apply to a company in which ninety per cent or more members, in number, are relatives of promoters or are related parties:
- D. In the case of a wholly-owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval, the resolution passed by the holding company shall be sufficient for the purpose of entering into the transaction between the wholly-owned subsidiary and the holding company.

V. Decision Regarding Transactions in Ordinary Course of Business and at Arm's Length

The Audit Committee or the Board shall, after considering the materials placed before them, judge if the transaction is in the Ordinary Course of Business and meets the Arm's Length requirements or Arm's Length Price.

VI. Policy Review

This Policy shall be reviewed by the Audit Committee as and when required to align with the regulatory and business requirements. The Policy as reviewed by the Audit Committee shall be placed before the Board for its approval.

VII. Disclosure

Appropriate disclosures as required by the Act and Reserve Bank of India will be made in the Annual Return and the Board's Report of the Company. This Policy shall be disclosed on the website of the Company.

Note: In case of inconsistencies between the provisions of existing laws and Policy of the Company, the law shall prevail, and the language of the Policy shall be altered/amended in due course of time to bring parity between the two.

LAST REVIEWED BY THE BOARD OF DIRECTORS IN ITS MEETING HELD ON NOVEMBER 4, 2020.