

# **MAHARASHTRA NATURAL GAS LIMITED**

## **Related party transactions Policy document**

### **Preamble**

Maharashtra Natural Gas Limited (Company) a JV of Gail India Limited & Bharath Petroleum Corporation Limited is a City Gas Distribution Company and functions under authorization of Petroleum and Natural Gas Authority (PNGRB) under the Ministry of Petroleum and Natural Gas. The Company is professionally managed company has a good corporate Governance and internal control System.

The Board of Directors understand the importance the stake holders' confidence and trust in the Company. In order to preserve the same with transparency and ensure that no conflict of interest inflicting any apprehension in the minds of the stakeholders, the Board of Directors upon recommendation of Audit committee has adopted the following policy.

### **1. Background and purpose of the policy**

The Policy is drawn up to be in compliance with the requirements of Section 188 of the Companies Act, 2013. Amendments, to the Policy, would be considered by the Board based on the recommendations of the Audit Committee.

The policy is framed to ensure due and proper compliance with the applicable statutory provisions and to fortify that proper procedure is defined and followed for approval/ ratification and reporting of transactions, if any, as applicable, between company and any of its Related parties. The provisions of this policy are designed to govern the transparency of approval process and disclosures requirements to accord fairness in the treatment of related party transactions.

This Policy applies to transactions between the Company and one or more of its Related Parties. It provides a framework for reporting and governance of Related Party Transactions including material transactions.

This Policy is intended to ensure timely identification, approval, disclosure and reporting of transactions between the Company and Related Parties.

### **2. Key definitions**

**``Act``** means the Companies Act, 2013 and the rules made there under as amended time to time.

**`Audit Committee or committee`** means committee of the Board constituted from time to time under the provisions of section 177 of the Companies act, 2013.

**“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, “significant influence” means control of at least twenty per cent of total share capital, or of business decisions under an agreement

**Board and Audit Committee refers to** the Board of Directors and Committee of the Board constituted under Section 177 of the Companies Act, 2013.

**‘Control’** as defined under the act 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 shareholder’s agreements or voting agreements or any other manner.

**“Key Managerial Personnel”** means Key Managerial Personnel as defined under the Companies Act, 2013 which shall include:

- Chief Executive Officer(CEO) and/or the Managing Director
- The Company Secretary(CS)
- The Whole Time Director (Director Commercial)
- Chief Financial Officer(CFO)
- Such other officer as may be prescribed

**“Material Related Party Transaction”** means a Related Party Transaction which individually or taken together with previous transactions during the financial year, exceeds 10% of the annual consolidated turnover as per the last audited financial statements or transactions exceeding **thresholds** as specified in the Companies Act, 2013.

**“Related Party”** a means related party as defined under the Companies Act, 2013.

**“Related Party Transaction”** means any transaction between the Company and any Related Party for transfer of resources, services or obligations, regardless of whether a price is charged and includes –

- 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 the 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;
- h. financing (including loans and equity contributions in cash or kind) including off balance sheet guarantees and securities provided
- j. Deputation of employees or other sharing of resources.

(The above is an indicative list and not an exhaustive one).

**``Material Related party transactions``**

*	Transaction or Contract or arrangements for	*Limits for the time being in force ( as per rule 15 of Meeting of Board & its Powers ) Rules, 2014
1	Sale, purchase or supply of any goods or materials directly or through appointment of agents	<p>Lower amongst the following:</p> <p>(i) Exceeding 10% of the turnover of the Company or</p> <p>(ii) Rs.100 Crores</p> <p>For the transaction or transactions to be entered in to either individually or taken together with the previous transactions during a financial year.</p>
2	Selling or otherwise disposing of ,or buying property of any kind ,directly or through appointment of agent	<p>Lower amongst the following:</p> <p>(iii) Exceeding 10% of the turnover of the Company or</p> <p>(iv) Rs.100 Crores</p> <p>For the transaction or transactions to be entered in to either individually or taken together with the previous transactions during a financial year.</p>
3	Leasing any kind of property	<p>Lower amongst the following:</p> <p>(v) Exceeding 10% of the turnover of the Company or</p> <p>(vi) Rs.100 Crores</p> <p>For the transaction or</p>

		transactions to be entered in to either individually or taken together with the previous transactions during a financial year.
4	Availing or rendering of any services directly or through any agent	Lower amongst the following: (vii) Exceeding 10% of the turnover of the Company or (viii) Rs.50Crores  For the transaction or transactions to be entered in to either individually or taken together with the previous transactions during a financial year.
5	For appointment to any office or place of profit in the Company ,its Subsidiary Company or Associate Company	Where monthly remuneration exceeds Rs.2,50,000/-
6	Remuneration for underwriting the subscription of any securities or derivatives thereof of the Company	For amount not exceeding 1% of net worth of the Company.
<p>*shall be considered as amended from time to time in line with amendment in Rule 15 of Meeting of Board &amp; its Powers) Rules, 2014 by the Central Govt.</p> <p>Annual turnover and net worth referred above shall be computed as per the audited financial statement of for the preceding financial year</p>		

**“Relative”** means a relative as defined under the Companies Act, 2013 and includes anyone who is related in any of the following manner –

- a. Members of a Hindu undivided family;
- b. Husband or 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
- j. Sister (including step-sister).

“**Transaction**” with a related party shall be construed to include a single transaction or a group of transactions.

The terms “**director, Chief Financial Officer, Company Secretary**” shall have the same meaning as assigned under Companies Act 2013

### **3. Policy for Related party transactions**

Audit Committee would review and approve Related Party Transactions based on this Policy.

All proposed Related Party Transactions must be reported to the Audit Committee for prior approval by the Committee in accordance with this Policy. In the case of regular / repetitive transactions which are in the normal course of business of the Company, the Committee pre – approval / omnibus approval can be granted. Such approval shall state the name of the related party, details of transactions with such parties and justification for granting omnibus approval.

#### **3.1 Identifying Related party transactions**

Every Director and Key Managerial Personnel will be responsible for providing a declaration containing the following information to the Company Secretary on an annual basis:

1. Names of his / her Relatives;
2. Partnership firms in which he / she or his / her Relative is a partner;
3. Private Companies in which he / she is a member or Director;
4. Public Companies in which he / she is a Director and holds along with his/her Relatives more than 2% of paid up share capital;
5. Any Body Corporate whose Board of Directors, Managing Director or Manager is accustomed to act in accordance with his / her advice, directions or instructions; and
6. Persons on whose advice, directions or instructions, he / she is accustomed to act (other than advice, directions or instructions obtained from a person in professional capacity).

Every Director and the Key Managerial Personnel will also be responsible to update the Company Secretary of any changes in the above relationships, directorships, holdings, interests and / or controls immediately on him / her becoming aware of such changes.

The Company Secretary shall be responsible to maintain an updated database of information pertaining to Related Parties reflecting details of –

1. All Directors and Key Managerial Personnel;

2. All individuals, partnership firms, companies and other persons as declared and updated by Directors and Key Managerial Personnel;
3. Company's holding company, subsidiary companies and associate companies;
4. Director or Key Managerial Personnel of the holding company or their Relatives;
5. Any other related party as defined in Companies Act, 2013.

The database shall be updated whenever necessary and shall be reviewed at least once a year jointly by the Company Secretary and Chief Financial Officer.

Every Director, Key Managerial Personnel, Functional / Business heads / Chief Financial Officer will be responsible for providing prior Notice to the Company Secretary of any potential Related Party Transaction. They will also be responsible for providing additional information about the transaction that the Board / Committee may request, for being placed before the Committee and the Board.

### **3.1.1 Determining the ``Ordinary Course of Business``**

``In the Ordinary Course of Business`` means all such acts and transactions undertaken by the Company including, but not limited to sale & purchase of goods, property or services, leases, transfers, providing of guarantee or collaterals, in the normal routine in managing trade or business. The following factors have been considered for determination whether the transactions are in ordinary course of business:

- a. The objects of the Company have permitted such transactions
- b. There is historical practice to conduct such activities
- c. A pattern of frequency to conduct such activities over a period of time
- d. The transactions are common in industrial practice

and is permitted by the objects clause of Memorandum and Articles of Association of the Company. The Company should take into account the frequency of the activity and its continuity carried out in normal organized manner for determining what is the ordinary course of business.

### **3.1.2 Ascertaining ``Arm's length`` in related party transactions**

The expression ``arm's length transaction`` means a transaction between two related parties that is conducted as if they are unrelated so that there is no conflict of interest.

A related party with whom the related party transaction is undertaken must have been selected using the screening/selection criteria/underwriting standards and procedures as may be applicable in case of unaffiliated party.

The company shall produce evidence to the satisfaction of the Audit Committee for complying with the said procedure, as and when applicable as required.

Screening and selecting Criteria for determining the transactions with sponsors and other shareholders, holding more than 2% stake in the Company as ``ARM'S LENGTH`` at MNGL.

- Transactions involving purchase of gas from its sponsors (GAIL & BPCL) as long as same are done through the following means:
  - ✓ Gas purchased through Administered Price Mechanism(APM) through govt. circular where transaction value is un-affected by relations.
  - ✓ Gas (Degasified Liquefied Natural Gas- RLNG) purchased through bidding process which may entail purchase of RLNG either from GAIL or BPCL depending upon lowest bid price.
  - ✓ Sale of Gas through Online and Daughter Booster Stations to BPCL gas stations, which are purely commercial transactions which are same for all OIL Marketing Companies(OMC) and supported by agreement.
- **Secondment(Deputation) Charges**-As per the Shareholders agreement it is mandated that the Managing Directors and Director Commercial has to be nominated on the Board by GAIL and BPCL respectively hence any reimbursement of salary for the deputation period without any markup can be termed as transaction under arm`s length.
- **Restoration charges for digging of roads and purchase of land for gas station**  
MIDC the minority shareholder of the company occupies a large area of land in the city of Pune where many industries as well as residential colonies are located .In order cater to these industries and residential localities the Company carry out transaction relating to digging of roads and purchase of land for setting up gas stations from MIDC .Since rates for all these transactions are recovered as per Govt.Resolutions( GRs) therefore such transactions can be termed under `` Arm`s length``.
- Any other transactions related to purchase or **sale of Equipment /Technical Expertise / Consultancy** from sponsors or from other shareholders in ordinary course of business through the bid tender process.

### **3.2 Approval of Related Party transactions**

All Related Party Transactions shall be subject to the prior approval of the Audit Committee whether at a meeting or by resolution by circulation or through electronic mode. A member of the Committee who has a potential interest in any Related Party Transaction will not remain present at the meeting or abstain from discussion and voting on such Related Party Transaction and shall not be counted in determining the presence of a quorum when such Transaction is considered.

The Committee has to ensure that adequate deliberations are held before approving related party transactions and assure themselves that the same are in the interests of the company.

It is not the responsibility of the Audit Committee to determine if there is need to do a transaction with a related party.

#### **3.2.1 Basis of approval**

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 and to the Related Party, and any other relevant matters, such as:

- a. Whether the terms of the Related Party Transaction are in the ordinary course of the Company's business and are on an arm's length basis;
- b. The business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- c. Whether the Related Party Transaction includes any potential reputational risks that may arise as a result of or in connection with the proposed Transaction; and
- d. Whether the Related Party Transaction would affect the independence or present a conflict of interest for any Director or Key Managerial Personnel of the Company, taking into account the size of the transaction, the overall financial position of the Director, Key Managerial Personnel or other Related Party, the direct or indirect nature of the Director's interest, Key Managerial Personnel's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Committee deems relevant.

While considering the arm's length nature of the transaction, the Committee shall take into account the facts and circumstances as were applicable at the time of entering into the transaction with the Related Party. The Committee shall take into consideration that subsequent events (i.e., events after the initial transactions have commenced) like evolving business strategies / short term commercial decisions to improve / sustain market share, changing market dynamics, local competitive scenario, economic / regulatory conditions affecting the industry, may impact profitability but may not have a bearing on the otherwise arm's length nature of the transaction.

While determining what constitutes "ordinary course of business" reference can be made to Guidelines issued by ICAI, the principles put down by various courts and provisions of the Act and Rules framed there under, the ordinary course of business will broadly mean the usual transactions, customs and practices of a business and of the company.

### **3.2.2 Approval by Circular resolution of the Committee.**

In certain events where it is impractical or undesirable to wait until a meeting of the Committee to enter into a Related Party Transaction, such transaction may be approved by the Committee by way of circular resolution in accordance with this Policy and statutory provisions for the time being in force. Any such approval must be ratified by the Committee at its next scheduled meeting.

### **3.2.3 Board approval**

If the Committee considers that a Related Party Transaction should be referred to the Board, or if the Board decides to review such transactions suo moto or by application of law, then all details as presented to the Audit Committee for approval shall be presented to the Board.



All related party transactions will be intimated to all independent directors after approval by the Audit Committee or Board.

### **3.2.4 Shareholder approval**

Transactions in excess of the limits prescribed under the Companies Act, 2013, which are not in the Ordinary Course of Business or not at Arms' Length require the prior approval of the shareholders through special resolution.

Material Related Party Transactions, as defined in this policy document, require approval of the shareholders through special resolution.

### **3.2.5 Ratification of transactions**

In the event the Company becomes aware of a Related Party Transaction that has not been approved or ratified under this Policy, the transaction shall be placed as promptly as practicable before the Committee or Board or the Shareholders as may be required in accordance with this Policy for review and ratification.

The Committee or the Board or the Shareholders shall consider all relevant facts and circumstances respecting such transaction and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such transaction, and the Company shall take such action as the Committee deems appropriate under the circumstances.

### **3.2.6 Standing pre-approval /Omnibus approval by the Committee**

In case of frequent/regular/repetitive transactions which are in the normal course of business of the Company, the committee may grant pre-approval /omnibus approval. While granting the approval the Audit Committee shall satisfy itself of need for such omnibus approval and that same is in the interest of the Company. The omnibus approval shall specify the following:

- a) Name of the related party
- b) Nature of the transaction
- c) Period of the transaction
- d) Maximum amount of the transaction that can be entered into
- e) Indicative base price/current contract price & formula for variation in price if any
- f) Such other conditions the audit committee may deem fit

Such transactions deem to be pre-approved and may not require any further approval of the Audit Committee for each specific transaction unless the price, value or material terms of the contract or arrangement have been varied/amended. Any proposed variations/amendments to these factors shall require a prior approval of the Committee.

Further where the need of the related party transaction cannot be foreseen and all prescribed details are not available, the committee may grant omnibus approval subject to the value per transaction not exceeding Rs. 20,000,00 Rupees twenty lakhs only). The details of such

transactions shall be reported at the next meeting of the Audit Committee for ratification. Further the Committee shall on an annual basis review and assess such transactions including the limits to ensure that they are in compliance with the policy. The Omnibus approval is valid for one year and fresh approval shall be obtained after the expiry of one year.

### **3.3 Disclosures**

Every Related Party Transaction entered into by the Company shall be referred to in the Board's report to the shareholders along with justification for entering into such transaction. The Company Secretary and the Chief Financial Officer shall be, responsible for such disclosure. The Company Secretary shall also make necessary entries in the Register of Contracts required to be maintained under the Companies Act, 2013.

In the event of any conflict between the provisions of this Policy and of the Companies Act, 2013 or any other statutory enactments, rules, the provisions of statutes shall prevail over this Policy.

### **4. Sharing of policy**

This policy shall be communicated to all concerned employees and other persons of the company at all locations for implementation and reporting.

### **5. Policy Review**

The audit committee may review the policy from time to time and recommend any changes to the Board of Directors for their approval.