

SONAL MERCANTILE LIMITED

POLICY FOR TRANSACTIONS WITH RELATED PARTIES

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1. OBJECTIVE

Regulation 23 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 provides that all listed companies shall formulate a policy on materiality of related party transactions and also on dealing with related party transactions. Further Section 177 and 188 of the Companies Act, 2013 read with relevant rules also provides for certain compliance requirements such as Audit Committee approval, Board approval and Shareholder's approval.

Keeping in view the above mentioned compliance requirements stated in Companies Act, 2013 read with related rules issued thereon and SEBI (LODR) Regulations, the Board of Directors (the "Board") of Sonal Mercantile Limited (the "Company" or "SML"), acting upon the recommendations of the Audit Committee of the Company, has approved and adopted the policy and procedure with regard to Related Parties and Related Party Transactions of the Company.

This Policy shall regulate transactions between the Company and its Related Parties based on the laws and regulations applicable on the Company and also lay down mechanism for identification, approval, review and reporting of such transactions.

This policy is formulated primarily from the purview of Companies Act, 2013, Rules framed thereunder, SEBI (LODR) and also drawing relevant provisions from Ind Accounting Standards (Ind AS). The Policy on Related Party Transactions may be amended, pursuant to the recommendation of the Audit Committee and subject to the approval of the Board and is subject to any further change in the Listing Agreement or the Companies Act, 2013 (the Act) or rules/regulations made thereunder, or the SEBI Listing Regulations.

2. DEFINITIONS

- a) **"Arms length transaction"** as per the Explanation (b) to Section 188 (1) of the Companies Act, 2013 means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
- b) **"Associate Company"** means associate company as defined in Section 2(6) of the Companies Act, 2013. Accordingly, "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 voting power, or control of or participation in business decisions under an agreement.

- c) **Audit Committee (Committee)** means Committee of Board of Directors of the Company constituted under provisions of the Listing agreement as well as the Companies Act, 2013;
- d) **"Board"** means Board of Directors of the Company;

- e) **“Company”** means Sonal Mercantile Limited;
- f) **“Control”** shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- g) **“Holding Company”** means holding company as defined in Section 2(46) of the Companies Act, 2013. Accordingly, “holding company”, in relation to one or more other companies, means a company of which such companies are subsidiary companies;
- h) **“Key Managerial Personnel”** or “KMP” shall have the meaning as defined under Section 2(51) of the Companies Act, 2013 and as amended from time to time;
- i) **“Material Related Party Transaction as per SEBI (LODR) Regulations”** means 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 Rs. 1,000 crore or 10% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower.

In case of transaction involving payment to a Related Party for brand usage or royalty, it will be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed 5% of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

- j) **“Related Party”** in relation to the company means a party related to the company in any of the ways as laid down in Section 2(76) of the Companies Act, 2013 or Regulation 2(1)(zb) of the SEBI (LODR), 2015 as amended from time to time and includes the following.
- (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 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) anybody 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 under whose advice, directions or instructions a director or manager is accustomed to act;
 - (viii) any company which is –
 - a holding, subsidiary or an associate company of such company;
 - a subsidiary of a holding company to which it is also a subsidiary; or
 - an investing company or the venturer of the company
 - (ix) Such other person as may be prescribed.

In addition to the above, an entity will be considered as a related party if it satisfies the conditions laid down as per Ind AS 24.

Provided that any person or entity forming a part of the promoter or promoter group of the listed entity or holding 20% or more [or 10% or more (w.e.f. 01/04/2023)] of

shareholding 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.

k) "Related Party Transaction" means as per SEBI (LODR) Regulations, 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, (w.e.f April 1, 2023), regardless of whether a price is charged.

A "transaction" with a related party shall be construed to include 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) subdivision or consolidation of securities;
 - (iii) Issuance of securities by way of a rights issue or a bonus issue; and buy-back of securities.

l) "Relative" means relative as defined in Section 2(77) of the Companies Act, 2013. Accordingly, "relative", 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;
- iii. one person is related to the other in such manner as may be prescribed

As per Rule 4 of Companies (Specification of definitions details) Rules, 2014 includes a person who shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely: -

1. Father (including step-father)
2. Mother (including step-mother)
3. Son (including step-son)
4. Son's wife
5. Daughter
6. Daughter's husband
7. Brother (including step-brother)
8. Sister (including step-sister)

3. POLICY

All Related Party Transactions must be identified and reported to the Audit Committee, and also to Directors and shareholders, wherever necessary, for their prior approval, in accordance with the Companies Act, 2013 and the SEBI Listing Regulations. The said transactions shall be disclosed in accordance with the requirements of the Companies Act, 2013 and the SEBI (LODR) Regulations, 2015.

4. POLICY ON DETERMINATION OF MATERIALITY OF RELATED PARTY TRANSACTIONS

- a) All transactions which are not in the ordinary course of business or not at arm's length pricing or both will be put up for prior approval of the Board. In case the Company has a paid-up share capital exceeding the amount as may be prescribed or the value of the specified transaction exceeds the prescribed thresholds under the Act, it will also be put up for prior approval of the shareholders.
- b) All material Related Party Transactions (within the meaning of the SEBI Listing Regulations) shall require approval of the shareholders 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.

5. IDENTIFICATION OF POTENTIAL RELATED PARTY TRANSACTIONS

The Board of Directors are responsible for providing notice of disclosure of interest under section 184 of the Companies Act, 2013 along with list of relatives to the Company. The Company shall ensure that no transaction is entered into with any entity/individual disclosed by the director/ KMP or any other related party without necessary approvals.

As a policy, the Company will identify transactions falling under contracts and arrangements, as per the applicable laws, entered into with Related Parties for the consent of the Committee, Board and shareholders, as applicable.

INFORMATION TO BE REVIEWED BY THE AUDIT COMMITTEE FOR 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:

- i) details of the source of funds in connection with the proposed transaction;
 - ii) 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;
 - iii) applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - iv) the purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
- g. Justification as to why the RPT is in the interest of the listed entity;
 - h. A copy of the valuation or other external party report, if any such report has been relied upon;
 - i. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis;
 - j. Any other information that may be relevant or important

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.

The Committee shall, inter-alia, consider the following factors which are only indicative in nature and not limited to:

- ❖ 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;
- ❖ Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- ❖ 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
- ❖ 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 facts and circumstances as were applicable at the time of entering into the transaction with the Related Party should be taken into account. The 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 global / domestic industry, may impact profitability but may not have a bearing on the otherwise arm's length nature of the transaction should also be considered.

INFORMATION TO BE PROVIDED TO BOARD OF DIRECTORS FOR CONSIDERATION OF RPTS

- a. the name of the related party and nature of relationship;

- b. the nature, duration of the contract and particulars of the contract or arrangement;
- c. the material terms of the contract or arrangement including the value, if any;
- d. any advance paid or received for the contract or arrangement, if any;
- e. the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
- f. 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
- g. any other information relevant or important for the Board to take a decision on the proposed transaction.

INFORMATION TO BE PROVIDED TO SHAREHOLDERS FOR CONSIDERATION OF RPTS

- a. Name of the related party;
- b. Name of the director or key managerial personnel who is related, if any;
- c. Nature of relationship;
- d. Nature, material terms, monetary value and particulars of the contract or arrangements;
- e. A summary of the information provided by the management of the listed entity to the audit committee
- f. Justification for why the proposed transaction is in the interest of the listed entity;
- g. Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary, (The requirement of disclosing source of funds and cost of funds shall not be applicable to listed banks/NBFCs.)
- h. 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;
- i. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis;
- j. Any other information relevant or important for the members to take a decision on the proposed resolution.

6. APPROVAL BY THE AUDIT COMMITTEE

All Related Party Transactions and material modifications thereto shall require prior approval of the Audit Committee. Only independent directors of the audit committee shall approve such related party transactions.

Omnibus Approvals

In the case of frequent/regular/repetitive related party transactions of the Company, the Audit Committee may grant an Omnibus Approval.

The Audit Committee shall, after obtaining the approval of the board of directors, specify the criteria for granting omnibus approvals to the Related Party Transactions proposed to be entered into by the Company in the manner as prescribed under Rule 6A(1) of the Companies (Meetings of Board and its Powers) Rules, 2014. The Audit Committee shall, while granting such omnibus approvals, satisfy itself about the adherence to the criteria so specified by it.

While granting such omnibus approval, the Audit Committee shall satisfy itself of the need for the omnibus approval and that the same is in the interest of the Company. The omnibus approval shall specify the following:

- ❖ Name(s) of the related party(s)
- ❖ Nature of the transaction
- ❖ Period of the transaction
- ❖ Maximum amount of the transactions that can be entered into
- ❖ Indicative base price / current contracted price and formula for variation in price, if any
- ❖ Such other conditions as the Audit Committee may deem fit

Omnibus approvals shall be valid for a period maximum one – two financial years and shall require fresh approvals after the expiry of said period. Any proposed variations / amendments to the terms on which Omnibus Approval is granted shall require prior approval of the Audit 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 for such transaction subject to the value as per Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirement), 2015 and other applicable laws/regulations, if any

Review of Related Party Transactions

The Audit Committee shall review on a quarterly basis the details of all RPTs entered into by the Company including those entered in pursuance to the omnibus approval granted by it. The Audit Committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.

7. APPROVAL BY THE BOARD OF DIRECTORS

Following transactions with Related Party (ies) shall require approval of the Board:

- a) it is a specified transaction and is not in the Ordinary Course of Business or not at Arms' Length basis, or
- b) the Audit Committee determines that a Related Party Transaction should be brought before the Board, or
- c) the Board in any case elects to review any such matter.

Provided that in the case of a transaction falling under Point no. (a) above, prior approval of the Board shall be required.

In case any director is interested in any transaction with a Related Party, such director shall not be present at the meeting during discussions on the subject matter of the resolution relating to such transaction.

8. APPROVAL BY THE SHAREHOLDERS

The prior approval of the Shareholders shall be taken by way of an Ordinary Resolution in respect of all Material Related Party Transactions under the Act and all Material Related Party Transactions under the Listing Regulations.

No related party shall vote to approve the resolution irrespective of whether that Related Party is a party to the particular transaction or not.

9. RELATED PARTY TRANSACTIONS NOT PREVIOUSLY APPROVED

In the event the Company becomes aware of a Related Party Transaction that has not been approved under this Policy, the transaction shall be placed as promptly as practicable, within 3 months of its occurrence, before the Audit Committee or Board or the Shareholders as may be required in accordance with this Policy for review and approval.

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 it may consider appropriate under the circumstances.

10. DISCLOSURE AND REPORTING OF RELATED PARTY TRANSACTIONS

As required under Section 188/SEBI of the Act read with the Rules made thereunder, all contracts or arrangements with Related Parties shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.

Details of all material transactions with the related parties shall be disclosed to the Stock Exchange(s) on a quarterly / half yearly basis, as applicable, along with the Quarterly / half yearly Corporate Governance Report.

The Company shall submit within 15 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the SEBI Circular SEBI/HO/CFD/CMD1/CIR/P/2021/662 dated November 22, 2021 or such other format as specified by the SEBI from time to time and publish the same on its website. With effect from 1-Apr-2023, the same shall be disclosed by the Company as on the date of publication of its standalone and consolidated financial results for the half year.

11. AMENDMENTS TO THE POLICY

The Board shall have the power to clarify any doubts or rectify any anomalies that may exist in connection with the effective execution of this Policy. The Board is required to review this Policy from time to time, but not later than 3 years, based on changing requirements of any law or SEBI regulations. In the event of any conflict between the provisions of this Policy and any law or SEBI regulations, such law or SEBI regulations shall prevail.

12. DISCLOSURE OF THE POLICY

The Company shall disclose this Policy on its website. The necessary disclosure, if any, about the policy will also be made as per the requirements of Listing Regulations and Companies Act 2013.