

MEGASOFT LIMITED

**POLICY FOR DETERMINING MATERIALITY OF RELATED PARTY TRANSACTIONS AND DEALING WITH
RELATED PARTY TRANSACTIONS**

As adopted by the Board of Directors

SCOPE

This Policy is intended to ensure the proper approval and reporting of transactions between Megasoft Limited (Company) and any of its Related Parties. This Policy shall apply to all transactions entered into by the Company with its Related Parties as per the applicable laws and regulations, including the Companies Act, 2013 (the “Companies Act”) read with the rules framed thereunder and the Listing Regulations. The Company has, under this Policy, formulated guidelines for identification of Related Parties based on materiality thresholds and setting forth the proper conduct and documentation for Related Party Transactions. Going forward, the Audit Committee of the Company may review and amend this policy from time to time, subject to adoption by the Board.

INTERPRETATION

- a. Any words used in this Policy but not defined herein shall have the same meaning prescribed to it in the Companies Act, the Securities and Exchange Board of India Act, 1992, as amended, or rules and regulations made thereunder including the SEBI Listing Regulations, the applicable accounting standards or any other relevant legislation/law applicable to the Company
- b. The reference to the masculine gender in the Policy shall be deemed to include a reference to feminine gender.
- c. In case of any dispute or difference upon the meaning/ interpretation of any word or provision in this Policy, the same shall be referred to the Audit Committee and the decision of the Audit Committee shall be final. In interpreting such term/provision, the Audit Committee may seek the help of any of the officers of the Company or an external expert as it deems fit.

APPROVAL OF RELATED PARTY TRANSACTIONS

Before undertaking any transaction, it must be examined by the Company whether such transaction qualifies as a Related Party Transaction, requiring compliance with this policy. The Chief Financial Officer in consultation with the Company Secretary and other persons, as appropriate, shall determine whether a transaction does, in fact, constitute a Related Party Transaction and if so, ascertain in which of the following categories such transaction should be classified in order to determine the approval requirements:

a. Audit Committee

All Related Party Transactions or any subsequent modifications therein, shall require prior approval of the Audit Committee of the Company. Any member of the Audit Committee who has a potential interest in any Related Party Transaction will recuse himself and abstain from discussion and voting on the approval of the Related Party Transaction.

The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to the following conditions:

- (i) The Audit Committee shall lay down the criteria as approved by the Board of the Company 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;
- (ii) The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company;
- (iii) Such omnibus approval shall specify (i) the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction, in aggregate that can be entered into, (ii) The maximum value per transaction which can be allowed, (iii) the indicative base price / current contracted price and the formula for variation in the price if any and (iv) such other conditions as the Audit Committee may deem fit; Provided that 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.
- (iv) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely:
 - (a) repetitiveness of the transactions (in past or in future);
 - (b) justification for the need of omnibus approval
- (v) Audit Committee shall review, at least on a quarterly basis, the details of Related Party Transactions entered into by the Company pursuant to each of the omnibus approval given; and
- (vi) Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

b. Board of Directors

Related Party Transactions which are not in the ordinary course of business or which is in the ordinary course of business but not at arm's length basis shall require prior approval of the Board through a resolution passed at the meeting of the Board shall be necessary.

- (i) Where any Director is interested in any contract or arrangement 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 contract or arrangement.
- (ii) The Board of Directors shall review, approve and recommend to the Shareholders for their approval, all Material Related Party Transactions and such transactions as required to be approved by shareholders of the Company in terms of section 188(1) of the Act and Listing Regulations.

c. Shareholders approval

- (i) All material Related Party Transactions shall require prior approval of the shareholders through resolution and no Related Party shall vote on such resolutions whether the entity is a Related Party to the particular transaction or not. However, the said requirement would not be applicable in respect of a resolution plan approved under section 31 of the Insolvency and Bankruptcy Code, 2016 subject to the event being disclosed to the recognized stock exchanges within one day of the resolution plan being approved.
- (ii) If a Related Party Transactions is not in the ordinary course of business, or which is in the ordinary course of business but not at arm's length price and exceeds certain thresholds as prescribed under Section 188 of the Companies Act and rules made thereunder (including any amendment(s) thereto or re-enactment thereof for the time being in force), it shall require shareholders' approval by a resolution.
- (iii) The Related Parties which may be related in the context of the Related Party Transaction for which the resolution is being passed and all other entities falling under the definition of related parties shall abstain from voting as shareholders in case of Related Party Transactions which require the approval of shareholders. However, the shareholders' approval is not required for the transactions entered into between the Company and its wholly owned subsidiaries whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.

VOTING REQUIREMENTS

- (i) Before approving any Related Party Transaction, the Chief Financial Officer must express a reasoned opinion on the Company's interest in carrying out the transaction and on the benefits and substantive fairness of the related terms. In determining whether to approve or ratify a Related Party Transaction, the Committee / Board, as the case may be, shall take into account among other factors it deems appropriate, whether the Related Party Transaction is in the Ordinary course of business of the Company and an Arm's Length Transaction and the extent of the Related Party's interest in the transaction.
- (ii) The term Ordinary course of business has been elaborated in Appendix A to this Policy. For this purpose, the Audit Committee/ Board, as the case may be, are entitled to seek the assistance of any employee of the Company or one or more independent experts of its choice at the expense of the Company.
- (iii) Any member of the Audit Committee who has a potential interest in any Related Party Transaction will abstain from any discussions or voting on such proposals.
- (iv) If any Director of the Company is interested in any contract or arrangement with a Related Party, such Director cannot be present at the Board Meeting of the Company during discussions in the matter.
- (v) Members who are Related Parties in the context of the related party contract or arrangement for which an ordinary resolution is to be passed shall not vote to approve the related party contract or arrangement for which the approval is sought.

- (vi) Members who are related parties shall not vote to approve a resolution in respect of approval of material Related Party Transaction.

PROCESS FOR DEALING WITH RELATED PARTY TRANSACTIONS

A list of all the related parties in relation to the Company received from the Board shall be updated from time to time.

The contract/arrangement shall not be entered into without the necessary approval from the Audit Committee/Board/shareholders, as the case may be. Compliance to this condition will strictly be adhered to by the concerned department proposing the underlying contractor arrangement.

DISCLOSURE OF RELATED PARTY TRANSACTIONS

- a. Every contract or arrangement which shall be entered into pursuant to section 188(1) of the Companies Act shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.
- b. The details of material transactions with related parties will be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis.
- c. 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 relevant accounting standards for annual results to the stock exchanges and publish the same on its website.

REVIEW OF THE POLICY, APPLICABILITY AND AMENDMENT

Any Changes to the policy on account of regulatory requirements will be reviewed and approved by the Audit Committee or the Board or Chief Financial Officer of the Company subject to approval of the Audit Committee. The Audit Committee/ Board will give suitable directions/ guidelines to implement the same. In the event, any provisions contained in this Policy is inconsistent with the provisions contained in the Listing Regulations, the Companies Act, 2013 or Accounting Standards, etc. or any amendments thereto, (Regulatory Acts), the provisions contained in the Regulatory Acts will prevail.

Appendix A

Determination of Ordinary Course of Business

Background:

Section 188(1) of the Companies Act states that a company shall not enter into any contract or arrangement, as specified therein, with a related party which is not in the ordinary course of business and which is not at arm's length, without the consent of the board of directors given by a resolution at the meeting of the board of directors. 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 Companies Act read with the rules, it will be also be put up for prior approval of the shareholders through special resolutions.

So, for transactions meeting both the criteria in the fourth proviso to section 188(1) of the Companies Act, viz. transactions that are entered in the Ordinary course of business and amount to an Arms' Length Transaction, the provisions of Section 188(1) of the Companies Act would not apply.

Whilst the framework policy defined by us defines an Arm's Length Transaction, the Policy does not articulate what would be deemed as ordinary course of business for the Company.

What is an Ordinary course of Business?

The phrase 'ordinary course of business' is not defined under the Companies Act or the rules prescribed thereunder. An assessment of whether a transaction is in 'ordinary course of business' may be very subjective, judgmental and can vary on case-to-case basis. The purpose of making such assessment is to determine whether the transaction is usual or customary to the Company and / or its line of business.

The Company would, therefore, be required to exercise its judgment to conclude whether a transaction which the Company enters into can be considered to be in the ordinary course of its business.

For example, a car manufacturing company selling car to its group company would easily be deemed as a transaction that has been entered into by the company in its ordinary course of business.

Transactions that may be considered outside a company's normal course of business:

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

Tests for determining whether a contract/ activity falls within the ordinary course of business:

The courts have inter alia laid down the following principles in this regard:

- a. the objects of the company permit such activity;
- b. it is a historical practice and there is a pattern of frequency (and not an isolated transaction);
- c. it has a connection with the normal business carried on by the company;
- d. the income, if any, earned from such activity/transaction is assessed as business income in the company's books of accounts and hence, is a 'business activity'; and
- e. it is a common commercial practice.

Key factors which the management of the Company may consider in making its assessment for ordinary course of business of the Company.

- i. Whether the transaction is covered in its Memorandum of Association:

If the transaction is covered in the objects clause of the Memorandum of Association (MOA) then it is likely to be in ordinary course of business of the company.

- ii. Whether a transaction is usual or unusual:

Although a Company would be outsourcing its IT processes for the first time, if that is a norm in the industry in which it operates the transaction is not unusual. Hence, whilst deciding the usualness or otherwise of a transaction, one should not restrict oneself only to the company and its past history; rather, a wider perspective covering the line of business.

- iii. Frequency:

If a transaction occurs frequently over a period of time, the more likely it is to be an ordinary part of the business. However, the inverse of this does not necessarily hold true.

Business purpose of the transaction and whether transaction is done on similar basis with other third parties:

The Company would consider transactions to be in the ordinary course of business which include those that form part of the Revenue from Operations, the costs of goods sold and the normal expenses incurred for operating the business uninterruptedly or part of capital asset like replacement/ maintenance of fixed assets (considering the business rationale and without any complicated 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 may generally be assessed on a case to case basis as to whether they could be considered to be in the ordinary course of business.

Size and volume of transaction.

The materiality of the transaction in terms of its value may be considered.

Related party transactions of the Company (Subject to discussion and approval of the Audit Committee and Board)

Based on the rationale and parameters provided above, the management of the Company is of the view that the transactions as mentioned in Paragraph 6 of the Policy should to be considered in the Ordinary course of business of the Company.

As regards any other transaction with the Related Parties, the management of the Company may deem to consider such transaction in the Ordinary course of business of the Company from time to time based on the parameters specified in this Policy.