



TITAGARH RAIL SYSTEMS LIMITED
(Formerly TITAGARH WAGONS LIMITED)

POLICY ON RELATED PARTY TRANSACTIONS



TITAGARH RAIL SYSTEMS LIMITED

1. PREAMBLE

The Company is committed to adoption of the best practices in sync with its corporate governance philosophy based on the objective of fostering sustainable ethical conduct in fulfilling its responsibilities and recognizes that Related Party Transactions can present a risk of actual or apparent conflicts of interest of the Directors, Senior Management etc. with the interest of the Company.

The Board of Directors (the "Board") of Titagarh Rail Systems Limited (TRSL) has adopted the following policy on Related Party Transactions to regulate transactions between the Company and its Related Parties based on the applicable laws and regulations applicable to the Company.

2. OBJECTIVE

This policy is framed as per the requirement of Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ["SEBI (LODR)"] and in accordance with the provisions of Section 188 of the Companies Act, 2013 read with The Companies (Meetings of Board and its Powers) Rules, 2014. Related Party Transaction (**RPT**) transactions are appropriate only if they are in the best interest of the Company and its stakeholders in addition to being in conformity with the applicable laws. The Company is required to disclose each year in the Financial Statements RPT as well as the policy concerning RPT. There being two sets of regulations governing RPT and TRSL being a listed entity, more stringent of the two shall be adhered to in the conduct of RPT by the Company.

Policy has been designed to ensure the transparency of approval process and disclosures requirements for fairness in the conduct of RPT in accordance with the applicable laws. This policy shall supplement the Company's practices applicable to or involving the transactions with related persons. Further, the Board may amend this policy from time to time as may be required.

The Audit Committee of Directors ('Audit Committee'), shall review, approve and where permitted ratify Related Party Transactions based on this Policy in terms of the requirements under the above regulatory provisions as applicable.

3. APPLICABILITY

This Policy shall come into force with effect from 1st April, 2014 and shall be applicable to transactions made with:-

- (a) Board of Directors & their Relatives
- (b) Key Managerial Personnel (KMP) of the Company and their Relatives, and



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(c) Other Related Parties, as defined hereinafter.

4. DEFINITIONS

"**Audit Committee or Committee**" means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and SEBI (LODR).

"**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. (*Section 188 of the Companies Act, 2013*)

"**Board of Directors**" or "**Board**" in relation to a Company, means the collective body of Directors of the Company. (*Section 2(10) of the Companies Act, 2013*)

"**Control**" 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:

Provided that a director or officer of a target company shall not be considered to be in control over such target company, merely by virtue of holding such position; [*As per SEBI (SAST) Regulation*]

"**Key Managerial Personnel**" means, [*Section 2(51) of the Companies Act, 2013*]

- (i) Managing Director;
- (ii) Chief Executive Officer or manager;
- (iii) Whole- time director;
- (iv) Chief Financial Officer;
- (v) Company Secretary; and
- (vi) [¹such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board or as may be prescribed under the Companies Act, 2013]

"**Material Related Party Transaction**" means a transaction with a related party if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed(s) ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company, whichever is higher. [²Notwithstanding the above, a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be

¹ Inserted w.e.f. 08/06/2021



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entered into individually or taken together with previous transactions during a financial year, exceed five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.] (Regulation 23 of SEBI (LODR))

"Policy" means Related Party Transaction Policy.

"Related Party" means related party as defined in Regulation 23 of SEBI (LODR), Section 2(76) of the Companies Act, 2013 read with The Companies (Meetings of Board and its Powers) Rules, 2014 and the applicable Accounting Standards which is as follows:

A 'related party' is a person or entity that is related to the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, directly or indirectly, in making financial and/or operating decisions and includes the following:

1. A person or a close member of that person's family is related to a company if that person:

a. is a related party under Section 2(76) of the Companies Act, 2013 which are as follows:

- 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 under whose advice, directions or instructions a director or manager is accustomed to act:
Provided that nothing in sub-clauses (vi) and (vii) shall 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;
 - (B) a subsidiary of a company to which it is also a subsidiary; or
 - (C) [an investing company or the venturer of the company.]
- ix. Director or key managerial personnel of the holding company or his relative with reference to a company; or
- x. Such other person(s) as may be prescribed.

b. has control or joint control or significant influence over the company.

2. An entity is related to a company if any of the following conditions applies:

³ Inserted w.e.f. 08/06/2021



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- a) The entity is a related party under Section 2(76) of the Companies Act, 2013; or
- b) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); or
- c) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); or
- d) Both entities are joint ventures of the same third party; or
- e) One entity is a joint venture of a third entity and the other entity is an associate of the third entity; or
- f) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. if the company is itself such a plan, the sponsoring employers are also related to the company; or
- g) The entity is controlled or jointly controlled by a person identified in (1)(b) and (1)(c).
- h) A person identified in (1) (b) has significant influence over the entity (or of a parent of the entity).

[⁴Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding 20% or more of shareholding in the listed entity shall be deemed to be a related party.]

"Related Party Transaction" means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract. (*Regulation 2(z)(c) of SEBI (LODR)*)

For example, transaction with TRSL's subsidiary companies whether in India or overseas or joint venture company will come under this category. This applies to every company including private companies.

Pursuant to *Section 188 of the Companies Act, 2013*, Related Party Transactions mean, any contract or arrangement with a related party, with respect to—

- (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; and

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(g) underwriting the subscription of any securities or derivatives thereof, of the company.

"Relative" means relative as defined under the Companies Act, 2013 and includes anyone who is related to another, if -

- They are members of a Hindu undivided family;
- They are husband and wife;
- Father (including step-father) Mother (including step-mother)
- Son (including step-son)
- Son's wife
- Daughter
- Daughter's husband
- Brother (including step-brother) Sister (including step-sister)

"Approval by disinterested shareholders" means, voting by shareholders in favour of the Special Resolution (with three fourth approving this), other than Directors and Promoters/Promoter Group.

5. POLICY

5.1 Broad Principles

Any transaction with the subsidiary companies / related parties will be governed by the following broad principles:

- Globally distributed Delivery Model
- The sub-contracting will happen where skills and Intellectual Property are available
- Geography to which delivery to be made will also be taken into account while sub-contracting.
- The transactions can be either from Parent Company to Subsidiary Company(ies) and vice versa and also among the Group Companies.
- Price at arm's length - transfer pricing rules and regulations will apply.

All Related Party Transactions must be referred to Audit Committee for prior approval by the Committee in accordance with this Policy-

- irrespective of the value;
- even if the transaction is exempted;
- including any modification of such contracts.



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5.2 Identification of Potential Related Party Transactions

Each Director and Key Managerial Personnel is responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her relative, including any additional information about the transaction that the Board/Audit Committee may reasonably require. Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with the Policy.

The Company strongly advocates receipt of such notice of any potential Related Party Transaction well in advance so that the Audit Committee/Board has adequate time to obtain and review information about the proposed transaction.

What is not a Related Party Transaction? (Transactions that are exempted)

The transaction entered into by the company is:

In ordinary course of business (this is not a defined term in the Act and will have to be interpreted on a case to case basis) i.e. a business as stated in main object(s) clause of the Memorandum of Association of the company and should be a business which is usual or customarily carried on by the company at regular intervals; but on the contrary Regulation 23 of SEBI (LODR) does not specify any exemption for Related Party Transactions entered in ordinary course of business. **and**

On arm's length basis i.e. a transaction between two related parties that is conducted as if they were unrelated or in other words at competitive market rates prevailing, so that there is no conflict of interest. The price and other terms in the contract with the Related Party are to be similar as would be applicable to any third party.

However, in both the above circumstances a proof / evaluation is required to affirm that the transaction is not RPT. This would need to be consistent with domestic transfer pricing requirements as well under the Income Tax Act, 1961.

5.3 Prohibitions related to Related Party Transactions

All Related Party Transactions shall require prior approval of Audit Committee.

As per Regulation 23 of SEBI (LODR) all Material Related Party Transactions shall require approval of the shareholders through resolution and the Related Parties shall abstain from voting on such resolutions.

Further, as per Section 188 Companies Act, 2013 read with related rules issued thereon including any statutory modification, amendment thereof as may be issued from time to time Material Related Party Transaction means the Transactions which are not on Arm's Length Basis and / or are not in



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the Ordinary Course of Business and exceed limits provided for the specified transactions as mentioned below:

- i) *Sale/Purchase or supply of any goods or materials, directly or through appointment of agent, >10% of the turnover of the Company. [⁵Omitted].
- ii) *Selling/disposing/buying property of any kind, directly or through appointment of agent, >10 % of the net worth of the Company. [⁶Omitted].
- iii) *Leasing of property of any kind >10 % of the [⁷turnover] of the Company. [⁸Omitted]
- iv) *Availing or rendering any services, directly or through appointment of agent, >10% of the turnover of the Company.* [⁹Omitted].
- v) Related to appointment to any office or place of profit in the company/subsidiary/associate at a monthly remuneration exceeding Rs. 2.50 lakhs.
- vi) Remuneration for underwriting the subscription of any securities or derivatives thereof > 1% of the net worth

*[¹⁰The limits shall apply for these transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.]

[¹¹Explanation: The turnover or net worth referred hereinabove shall be computed on the basis of the audited financial statement of the preceding financial year.]

5.4 Review and Approval of Related Party Transactions

Related Party Transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

To review a Related Party Transaction, the Committee will be provided with all relevant and complete material information of the Related Party Transaction, including the nature, terms and duration of the transaction, the business purpose, justification of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters. In determining whether to approve a Related Party Transaction, the Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

⁵ The following words are omitted w.e.f. 08/06/2021 "OR Rs 100 Crores, whichever is lower."

⁶ The following words are omitted w.e.f. 08/06/2021 "OR Rs 100 Crores, whichever is lower."

⁷ For the word 'networth' the following words has been substituted 'turnover' w.e.f. 08/06/2021

⁸ The following words are omitted w.e.f. 08/06/2021 "OR Rs 100 Crores, whichever is lower."

⁹ The following words are omitted w.e.f. 08/06/2021 "OR Rs 50 Crores, whichever is lower."

¹⁰ Inserted w.e.f. 08/06/2021



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- Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
- 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 would affect the independence of an independent director;
- Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the Company was notified about the Related Party Transaction before its commencement and if not, why pre-approval was not sought and whether subsequent ratification is allowed and would be detrimental to the Company; and
- Whether the Related Party Transaction would present a conflict of interest for any Director or Key Managerial Personnel of the Company, taking into account the size of the transaction, direct or indirect nature of the director's, 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 Board/Committee deems relevant.
- Whether the Company has obtained the opinion of an Independent Chartered Accountant that the proposed transaction is in compliance with the relevant provisions of the Companies Act, Income Tax Act and the Listing Agreement with Stock Exchanges.

¹²Approval of the Audit Committee

The Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company.

[The Audit Committee Shall review, at least on a quarterly basis, the details of RPT entered into by the Company pursuant to each of the omnibus approval given. However, such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.]

Approval of the Board

If the Committee determines that a Related Party Transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any

¹² Inserted w.e.f. 08/06/2021



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Law for the Board to approve the Related Party Transaction, then the considerations set out above shall apply to the Board's review and approval of the matter, with such modification(s) as may be necessary or appropriate under the circumstances.

[¹³All Related Party Transactions which are either not on arm's length basis or not in the Ordinary Course of Business shall be recommended by the Audit Committee for the approval of the Board of Directors. In case the said transaction is a Material Related Party Transaction as provided hereinabove, the Board of Directors shall further recommend the same for the approval of the Shareholders by way of Special Resolution of the Company.]

Such approval of the Board should be obtained only at a duly convened meeting and cannot be obtained by way of a circular resolution or by delegating to any Committee of the Board [Section 188(1)]

[¹⁴Notwithstanding the policy, even the related party transactions which are statutorily exempt may for the better corporate governance/transparency, at the discretion of the management, be placed before Audit Committee or Board for approval.]

Approval of Shareholders

All "material" transactions, even if exempted have to be approved by the "disinterested" shareholders by way of Resolution within three months from the date of entering into such contracts.

Notwithstanding the foregoing, the following Related Party Transactions shall not require approval of Audit Committee or Shareholders:

- i. Any transaction at involves the providing of compensation to a Director or Key Managerial Personnel 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.
- ii. 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.

[¹⁵Pursuant to Regulation 23(5)(b) of the SEBI Listing Regulations and Section 188(1) of the Act the requirement for seeking shareholders' approval shall not be applicable to transactions

¹³ Inserted w.e.f. 08/06/2021

¹⁴ Inserted w.e.f. 08/06/2021



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between the Company and its wholly owned subsidiary/ies whose accounts are consolidated with the Company.]

Related Party Transactions not approved under this Policy

In the event the Company becomes aware of a transaction with a Related Party that has not been approved under this Policy prior to its consummation, the matter shall be reviewed by the Committee. The Committee shall consider all of the relevant facts and circumstances regarding the Related Party Transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the Related Party Transaction. The Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction to the Committee under this Policy, and shall take such action it deems appropriate.

In any case, where the Committee decides not to ratify a Related Party Transaction that has been commenced without approval, the Committee, as appropriate, may direct additional actions including, but not limited to, immediate discontinuation or rescission of the transaction. In connection with any review of a Related Party Transaction, the Committee has the authority to modify or waive any procedural requirements of this Policy.

6. Reporting Requirements

The Company shall report to Stock Exchanges on quarterly basis, the details of all material transactions with Related Parties.

The Company shall report in the Annual Report, the transactions that require the approval of the Board and shareholders with justification for entering into such contract or arrangement.

7. Penalties

Section 188:

(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

(4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or



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arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

(5) Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of this section shall,—

(i) in case of listed company, be [16liable to a penalty of twenty-five lakh rupees.] and

(ii) in case of any other company, be [17liable to a penalty of five lakh rupees.] .

REVIEW

The policy shall be reviewed by the Audit Committee and the Board, from time to time as may be necessary.

This Policy will be communicated to all related parties, operational employees and other concerned persons of the Company and also uploaded on the web site of the Company.

Limitation and Amendment

[18In the event of any conflict between the provisions of this Policy and of the Act or Listing Regulations or any other statutory enactments, rules, the provisions of such Act or Listing Regulations or statutory enactments, rules shall prevail over this Policy. Any subsequent amendment / modification in the Listing Regulations, Act and/or applicable laws in this regard shall automatically apply to this Policy.]

[Adopted by the Board vide Resolution passed on 8th June, 2021].

¹⁶For the words “punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both”, the following words were substituted - “liable to a penalty of twenty-five lakh rupees”. Change effective from 08/06/2021.

¹⁷For the words “punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees”, the following words were substituted - “liable to a penalty of five lakh rupees”. Change effective from 08/06/2021.

¹⁸ Inserted w.e.f. 08/06/2021