

# Fusion Finance Limited

(formerly known as Fusion Micro Finance Limited)

## POLICY ON MATERIALITY OF RELATED PARTY TRANSACTIONS AND DEALING WITH RELATED PARTY TRANSACTIONS

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## Title

This policy shall be called the 'Policy on materiality of related party transactions and dealing with related party transactions' ("Policy").

## Objective

- Related party transactions have been one of the major areas of focus for corporate governance reforms being initiated in India. The changes introduced in the corporate governance norms through Section 188 of the Companies Act, 2013, as amended and the rules framed thereunder ("Companies Act" or "Act") and Regulation 23 & 53 of the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015, as amended ("SEBI Listing Regulations") require the companies to have enhanced transparency and due process for approval of the related party transactions. Pursuant thereto, Section 188 of the Companies Act and Regulation 23 & 53 of the SEBI Listing Regulations read with Master Direction - Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 dated October 19, 2023 ("Directions") require the Company to formulate a policy on materiality of related party transactions and also on dealing with related party transactions including clear threshold limits duly approved by the Board.
- Accordingly, the board of directors ("Board") of the Company has adopted the following policy with regard to related party transactions. The Audit Committee of the Company will review this policy on an annual basis and propose any modifications to the Board for approval.

## Definitions

- **"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.
- **"Audit Committee"** means the audit committee of the board of directors of the Company.
- **"Board"** means the Board of directors of the Company.
- **"Company"** means Fusion Finance Limited.
- **"Key Managerial Personnel"** or "KMPs" means Key Managerial Personnel as defined under the Act and includes:
  - Managing Director, or Chief Executive Officer or Manager;
  - the Whole Time Director;
  - Company Secretary;
  - Chief Financial Officer;
  - Compliance Officer
  - such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
  - such other officer as may be prescribed.

- **“Material Related Party Transaction”** in relation to the Company means a related party transaction which individually or taken together with previous transactions with a related party during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower. Notwithstanding 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 entered individually or taken together with previous transactions during a financial year, exceed five percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.
- **“Material Modifications”** shall include all amendments or modification in relation to the related party transaction which may result into modification of transactions in excess of 10% of the value already approved by the Audit Committee.
- **“Ordinary Course of Business”** with reference to a transaction with a related party means a transaction which is:
  - carried out in the normal course of business envisaged in accordance with the Memorandum of Association of the Company as amended from time to time;
  - historical practice with a pattern of frequency;
  - common commercial practice; or
  - meets any other parameters/criteria as decided by the Board/Audit Committee, from time to time.
- **“Policy”** means this policy, as amended from time to time.
- **“Related Party”** in relation to the Company means a party related with the Company in any of the ways as laid down in Section 2(76) of the Companies Act or under applicable accounting standards and includes such parties as defined as “related party” under Regulation 2(1)(zb) of the SEBI Listing Regulations, as amended from time to time.
- **“Related Party Transaction”** means a transfer of resources, services or obligations between a Company 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, and includes transactions as defined as a “related party transaction” under the relevant provisions of the Companies Act or the Regulation 2 (zc) of the SEBI Listing Regulations or any other related law, regulation, standard, as amended from time to time.
- **“Relative”** means any person as per Section 2(77) of the Act and rules prescribed thereunder and as per Regulation 2(1) (zd) of the Regulations as amended from time to time, means anyone who is related to another, if
  - They are members of a Hindu Undivided Family; or
  - They are husband and wife; or
  - One person is related to another in the following manner, namely:
    - a) Father, including step-father

- b) Mother, including step-mother
- c) Son, including step-son
- d) Son's wife
- e) Daughter
- f) Daughter's husband
- g) Brother, including step-brother
- h) Sister, including step-sister

## Interpretation

- 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.
- The reference to the masculine gender in the Policy shall be deemed to include a reference to feminine gender.
- 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.

## Procedure

- **Disclosure by Directors**

Every director shall at the beginning of the financial year provide information by way of written notice to the Company regarding his concern or interest in the entity with specific concern to parties which may be considered as Related Party with respect to the Company and shall also provide the list of Relatives which are regarded as Related Party as per this Policy.

Directors are also required to provide the information regarding their engagement with other entity during the financial year which may be regarded as related party according to this Policy.

- **Identification of Transaction with Related Parties**

Each director and Key Managerial Personnel is responsible for providing notice to the Company 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 request. Audit Committee will determine whether a transaction does constitute a Related Party Transaction requiring compliance with this Policy.

Each director and Key Managerial Personnel shall make an annual declaration as per the provisions of the Companies Act and the rules framed thereof with respect to Related Party transactions to the Company in the last month ending before the financial year and this declaration shall be placed before the Audit Committee and the Board at their first meeting held at the succeeding financial year.

Any change in the list of Relatives shall be intimated by the Directors and KMPs by way of a fresh declaration to the Company.

## **Approval of Related Party Transactions**

- **Audit Committee**

Related party transactions will be referred to the next regularly scheduled meeting of Audit Committee for review and approval. Any member of the Audit Committee or the Board who has potential interest in any Related Party Transaction will in terms of Rule 15(2) of the Companies (Meeting of Board and its Powers) Rules, 2014 shall not be present at the meeting during the discussions on the subject matter and shall recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

All the transactions which are identified as Related Party Transactions and subsequent material modifications thereto should be preapproved by the Audit Committee before entering into such transaction. Only Independent Directors, who are members of the Audit Committee, shall approve the Related Party Transactions and subsequent material modifications thereto.

Provided that failure to seek ratification of the audit committee shall render the transaction voidable at the option of the audit committee and if the transaction is with a related party to any director, or is authorised by any other director, the director(s) concerned shall indemnify the company against any loss incurred by it.

Remuneration and sitting fees paid by the listed entity or its subsidiary to its director, key managerial personnel or senior management, except who is part of promoter or promoter group, shall not require approval of the audit committee provided that the same is not material in terms of the provisions of sub-regulation (1) of this regulation.

The Audit Committee shall consider the following factors while deliberating the related party transactions for its approval:

- 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

The audit committee shall also review the status of long-term (more than one year) or recurring RPTs on an annual basis.

In determining whether to approve a Related Party Transaction, the Audit Committee will consider the following factors, among others, to the extent relevant to the Related Party Transaction:

- i. 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;
- ii. Whether there are any compelling business reasons / rationale for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
- iii. Whether the Related Party Transaction would affect the independence of an independent director;
- iv. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- v. 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
- vi. Whether the Related Party Transaction would present an improper 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, Executive Officer or other Related Party, the 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.

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 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 that can be entered into, (ii) the indicative base price /current contracted price and the formula for variation in the price if any and (iii) 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. 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
- V. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

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 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 authorised by any other Director, the Director concerned shall indemnify the Company against any loss incurred by it.

- **Board of Directors**

In case of Related Party Transaction which is not in the ordinary course of business or not at arm's length transaction, whether or not it is a material Related Party Transaction, prior approval of the Board through a resolution passed at the meeting of the Board shall be necessary.

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.

- **Shareholder approval**

- I. All material related party transactions and subsequent material modification thereto as defined by the audit committee shall require prior approval of the shareholders through resolution and no Related Party shall vote to approve 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 not at arm's length price and exceeds certain thresholds as prescribed under Section 188 of the Companies Act, it shall require shareholders' approval by a resolution. The Related Parties shall abstain from voting as shareholders in case of Related Party Transactions which require the approval of shareholders.



- III. 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.

- **Information to be provided to shareholders for consideration of Related Party Transactions**

The notice being sent to the shareholders seeking approval for any proposed Related Party Transaction shall, in addition to the requirements under the Companies Act, 2013, include the following information as a part of the explanatory statement:

- a. A summary of the information provided by the management of the Company to the Audit Committee as specified in clause 6 (i) of this Policy
- b. Justification for why the proposed transaction is in the interest of the Company;
- c. Where the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the Company or its subsidiary, the details specified in clause 6 (i) (f) of this Policy; (The requirement of disclosing source of funds and cost of funds shall not be applicable to the Company, being an NBFC)
- d. A statement that the valuation or other external report, if any, relied upon by the Company in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- e. Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed Related Party Transaction, on a voluntary basis;
- f. Any other information that may be relevant.

### **Process for Dealing with Related Party Transactions**

- I. A list of all the related parties in relation to the Company received from the Board shall be updated from time to time.
- II. Basis the above mentioned list of related parties, every department shall, prior to entering in to any contract or arrangement with a related party, ascertain whether the proposed contract or arrangement satisfies the approval mechanism prescribed under this Policy.
- III. The contract/arrangement shall not be entered in to 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.

### **Reporting of Related Party Transactions**

- I. Every contract or arrangement, which is required to be approved by the Board / shareholders under this Policy, shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.
- II. 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.
- III. The Company shall disclose the policy on dealing with Related Party Transactions on its website and

a web link thereto shall be provided in the Annual Report of the Company.

- IV. The Company shall submit disclosures on related party transactions, to the stock exchanges in the prescribed format, within the timelines as specified under the SEBI Listing Regulations and publish the same on its website, as may be required.

## **Amendments**

Any change in the Policy shall be approved by the Board of the Company. The Board shall have the right to withdraw and/or amend any part of this Policy or the entire Policy, at any time, as it deems fit, or from time to time, and the decision of the Board in this respect shall be final and binding. The Policy shall be reviewed by the Board at least once every three years and updated accordingly. Any subsequent amendment/modification in the Act or the Listing Regulations and/or any other laws in this regard shall automatically apply to this Policy.

## **Communication of this Policy**

This Policy shall be posted on the website of the Company.