



Mercator Limited

**Related Party Transaction and Arm's Length Pricing Policy
Version No 2.1**

(Effective from 01.04.2022)

Preamble

- 1.1 Mercator Limited ('the Company') directly/ through its subsidiaries (collectively called Mercator Group) has diversified business interests in coal, oil and gas, commodity transportation and dredging. Mercator aims to continue this legacy of growth in its focus on the business of Energy based resources especially coal mining and oil & gas exploration and services.
- 1.2 As a part of its compliance pursuant to Section 188 of the Companies Act 2013, ('the Act') and Regulation 23 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), as amended from time to time, the Company's policy and procedures with regard to Related Party Transactions and Arms-Length Pricing Policy ('Policy') of those transactions were adopted and approved and made effective on 07th November, 2014 and revision in policy to be effective from 01st April, 2022.
- 1.3 The formally documented policy will be implemented after the same is duly approved by the Audit Committee and the Board of Directors of the Company.

2. Purpose of the Policy:

- 2.1 The primary purpose of this policy is to ensure a proper identification, approval process and reporting of transactions between the Company and its related parties as required as per the Act and its Rules made thereunder and the Listing Regulations. Further, the Company is required to formulate a policy on materiality of related party transactions and also on dealing with Related Party Transactions.

3. Definitions:

- 3.1 For the purpose of this Policy the Company has adopted the following definitions: -

3.1.1 Related Party:

- A) As defined under Section 2(76) of the Act:

“Related Party”, with reference to a company, means—

- a director or his relative;
- a key managerial personnel or his relative;
- a firm, in which a director, manager or his relative is a partner;
- a private company in which a director or manager or his relative is a member or director;
- 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;
- 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;
- any person on 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;

- any company which is—
 - ✓ a holding, subsidiary or an associate company of such company; or
 - ✓ a subsidiary of a holding company to which it is also a subsidiary;
 - ✓ an investing company or the venturer of the company.
- such other person as may be prescribed;

B) As defined in clause (zb) of Regulation 2 of (Listing Regulations)

An entity shall be considered as related to the company if:

- (i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- (ii) such entity is a related party under the applicable accounting standards."

Provided that:

- a. any person or entity forming a part of the promoter or promoter group of the listed entity, or;
- b. any person or any entity, holding equity shares;
 - 1. of twenty percent or more; or
 - 2. of ten percent or more, with effect from April 1, 2023 in the listed entity either directly or on a beneficial interests basis as provided under Section 89 of the Act, at any time, during the immediate preceding financial year, shall be deemed to be related party.

C) As defined by Accounting Standard 18 on Related Parties

Parties are considered related if:

- One party has control over other or
- has significant influence over other in making financial and/or operating decisions

3.1.2 Relative:

A) As defined under section 2(77) of the Act:

“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; or
- (iii) one person is related to the other in such manner as may be prescribed;

As prescribed in Companies Rules, 2014, list of relatives are:

- Father (including step-father)
- Mother (including the step-mother)
- Son (including the step-son)
- Son’s wife
- Daughter
- Daughter’s husband
- Brother (including the step-brother)
- Sister (including the step-sister)

- B) As defined in Listing Regulations:
“Relative” shall mean “relative” as defined in section 2(77) of the Companies Act, 2013 and rules prescribed there under.
- C) As defined by Accounting Standard 18 on Related Parties
Relative - in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise.

3.1.3 Related Party Transactions (RPT)

- A) As defined under section 188 of the Companies Act, 2013:
Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into 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, and
 - (g) underwriting the subscription of any securities or derivatives thereof, of the company.
- B) As defined under 2(1)(zc) of Listing Regulations:
means a transaction involving a 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, (with effect from April 1, 2023;)
- 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 includes¹:
- 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);
- i. Providing or obtaining guarantees and collaterals; and
- j. Deputation of employees.

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
 - iv. buy-back of securities.
- (c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board:

C) In determining a RPT, the following also needs to be considered:-

Section 185 of Companies Act, 2013:

No company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person.

The following are exceptions to the above requirement:-

Exception mentioned in the Act:

- (a) the giving of any loan to a managing or whole-time director
 - (i) as a part of the conditions of service extended by the company to all its employees; or
 - (ii) pursuant to any scheme approved by the members by a special resolution; or
- (b) a company which in the ordinary course of its business provides loans or gives guarantees or securities for the due repayment of any loan and in respect of such loans an interest is charged at a rate not less than the bank rate declared by the Reserve Bank of India..

Exemptions specified under Companies Rule, 2014:

- (1) Loan made by a holding company to its wholly owned subsidiary company or any guarantee given or security provided by a holding company in respect of any loan made to its wholly owned subsidiary company is exempted from the requirements under this section; and
- (2) Any guarantee given or security provided by a holding company in respect of loan made by any bank or financial institution to its subsidiary company is exempted. Provided that such loans made are utilised by the subsidiary company for its

principle business activities.

Section 186 of Companies Act, 2013

1. Investment

A company shall unless otherwise prescribed, make investment through not more than two layers of investment companies.

This does not apply to -

- (i) a company from acquiring any other company incorporated in a country outside India if such other company has investment subsidiaries beyond two layer as per the laws of such country;
- (ii) a subsidiary company from having any investment subsidiary for the purposes of meeting the requirements under any law or under any rule or regulation framed under any law for the time being in force.

2. Limits for Loans/ Guarantees/ Security/ Investment

No company shall directly or indirectly —

- a. give any loan to any person or other body corporate;
- b. give any guarantee or provide security in connection with a loan to any other body corporate or person; and
- c. acquire by way of subscription, purchase or otherwise, the securities of any other body corporate, exceeding sixty per cent of its paid-up share capital, free reserves and securities premium account or one hundred per cent of its free reserves and securities premium account, whichever is more.

3. Interest charged should not be lower than the prevailing yield of one year, three year, five year or ten year Government Security closest to the tenor of the loan.
4. The Company which is in default of repayment of deposit accepted or interest thereon, shall give any loan or give any guarantee or provide any security or make an acquisition till such default is subsisting.
5. The Company needs to maintain a register at registered office as mentioned in Form no.MBP-2 of the Companies (Meetings of Board and its Powers) Rules 2014, and the same shall be kept open for inspection and extract can be taken and copies can be provided to members on payment of prescribed fees.

3.1.4 Arms-Length

A) As defined under section 188 of the Act,

The expression “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.

B) Listing Regulations & AS-18 on Related Parties have not defined the term "Arms-length".

C) As defined under Section 92F(ii) of the Income Tax Act ,



Arm's length price is a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises, in uncontrolled conditions.

- 3.1.5 **“Material Modification”** means a modification in the existing Related Party Transaction that result in a variation of 20% or more of the approved limit of amount of transaction. Approved limit shall mean as approved by the Audit Committee/ Board of Directors or the Shareholders as the case may be.
- 3.1.6 **“Material Related Party Transaction”** means a Related Party Transaction which individually or taken together with previous transactions during a financial year, exceeds Rs. 1,000 Crores (Rupees One Thousand Crores) or ten percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company, whichever is lower or such limits as may be prescribed either in the Act or the Listing Regulations, whichever is stricter, from time to time.

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 into individually or taken together with previous transactions during a financial year, exceed 5 (Five) percent of the annual consolidated turnover of the Company as per the last audited financial statements of the Company.

4. Related Party Transactions:

4.1 Identification of RPT

The Company shall determine whether a potential transaction with a Related Person constitutes a “Related Person Transaction” / RPT requiring review under this Policy (including whether the Related Person has a material interest and shall be reviewed by board of directors once in every three years and updated accordingly).

“Provided that a transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions 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.”

All related party transactions and subsequent material modifications shall require prior approval of the audit committee of the listed entity:

Provided that only those members of the audit committee, who are independent directors, shall approve related party transactions.

It needs to take into consideration various aspects for assessing a Related Party Transaction (RPT).

For this, following points can be considered relevant:

- Parameters for determining arm's length pricing in a related party transaction
- Parameters for determining ordinary course of business
- Nature of relationship with the related party
- Business reasons for entering into RPT
- Commercial reasonableness of the terms of RPT including transactions entered on a urgent or time sensitive basis
- Materiality of RPT to the Company

- Whether the terms of RPT are fair and on the same basis as would apply if the transaction did not involve a Related Party Transactions
- Conflict of interest of the Related Party participating in the RPT.

4.2 **Ordinary Course of Business:**

The phrase “ordinary course of business” is not defined under the Companies Act 2013, Listing Regulations and AS 18.

The assessment of whether a transaction is in ordinary course of business is very subjective, judgmental and can vary on case-to-case basis. Variety of factors like size and volume of transactions, arms-length, frequency, purpose, etc, should be considered to make this assessment. Hence, for the purpose of the Policy the Company adopts the perceived understanding of the legislations that ordinary course of business will cover the usual transactions, customs and practices of a business and of a company. The following document can be referred to justify ordinary course of business:

- Scope provided by objects of the Company; if necessary the objects of the related party may also be referred to
- Activity of the Company.
- Standard Business Agreements.

Parameters for determining Ordinary course of business:

- Regularity / frequency of the activity/ transaction
- Uniformity and consistency of the activity
- Involvement of own resources in the activity

4.3 **Parameters for determining Arm’s Length Pricing in a Related Party Transaction:**

Following parameters can be considered for determining Arm’s Length Transaction:

- Nature and term of business association
 - ✓ Exclusive basis
 - ✓ Repetitive or a sporadic intervention
 - ✓ If association is newly formed, the benefits of preferring a related party over any other third party
- Performing due diligence exercise of the capabilities of the related party
- Rating the related party like it would have been done for a third party vendor/ customer
- Ordinary course of Business (as defined above)
- Comparison of contractual terms of dealings with related party and those of non-related party. E.g.: Pricing terms, Supply Terms etc.
- Third party quotations
- Valuation report
- Documents related to negotiations
- Standard rate contracts

4.4 **Illustrative List of transactions:**

Illustrative list of transactions which may be classified as in Ordinary Course of Business	Illustrative list of transactions which may not be classified as in Ordinary Course of Business
1) Transactions necessary for continuation of business uninterruptedly.	1) Complex Equity Transactions, such as corporate restructurings or acquisitions
2) Transactions which form part of regular activity	2) Rendering of services by the entity to another party, if no consideration is exchanged.
3) Transactions which form part of main objects of the company	3) Transactions with unusually huge discounts or returns.
4) Transactions carried out in past	4) Transactions which do not form part of regular activity/ main objects of the company.
5) Transactions which form part of revenue from operations	5) Transactions under contracts whose terms are changed before expiry.
6) Transactions which form part of operating expenses	6) Transactions with circular arrangements such as sale with commitment to repurchase.
7) Reimbursement of reasonable business and travel expenses.	
8) Transactions which are frequent in nature.	
9) Brand licensing.	
10) Transactions to support / promote the activities of the subsidiaries, associates and joint ventures.	

4.5 Approvals related to RPT:

The following table is based on a combined reading of Companies Act / Rules / Circulars & Listing Regulations.

Approval by	Type of Approval
Audit Committee	<ul style="list-style-type: none"> • Related Party Transactions entered between company and related party shall be placed before Audit committee for ratification. • The Audit Committee shall mandatorily review and prior approval for all Related Party transactions entered into after October 1, 2014. • Audit Committee may grant omnibus approval for RPT proposed to be entered subject to the fulfillment of the condition mentioned in as per clause 3 (c) of Regulation 23. • Section 177(4)(iv) of the Act, requires Audit Committee to approve transactions or any subsequent modifications thereof of the company with the related parties.
Board of Directors	<ul style="list-style-type: none"> • Related party transactions covered under Section 188 not in ordinary course of business or not at arm's length.
Shareholders	<ul style="list-style-type: none"> • RPT covered under Section 188 and meeting certain threshold limits would need ordinary resolution. • Transaction/transactions to be entered into individual or taken together with previous transaction with Related Party >10% of annual consolidated turnover of the Company as mentioned in Regulation 23 of Listing Regulations. • Where the giving of any loan or guarantee or providing any security or the acquisition exceeds the limits specified under section 186 prior approval by means of a special resolution passed at a general meeting shall be necessary. • Special resolutions in general meeting is required for disposal of shares in material subsidiary resulting into shareholding less than 50% or cease the exercise of control over the subsidiary. • Divestment under a Court approved Scheme of Arrangement excluded. • Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary shall require prior approval of shareholders by way of special resolution. Divestment under a Court approved Scheme of Arrangement excluded.

Board and Financial Institutions	<ul style="list-style-type: none"> In pursuant to section 186(5) of the Act, every Company shall take consent of every directors present at the board meeting before making any investment, giving loan and guarantee and providing security. In case of company has already taken loan etc, from any PFI , then it is mandatory to take prior approval from such PFI.
Approval by	Type of Approval
	<p>Provided that prior approval of PFI shall not be required where the aggregate loan, investment, guarantee and security proposed is within the limits as specified under section 186(2) and there is no default in repayment of loan or interest thereon to the PFI.</p>

4.6 Voting

In determining whether to approve or ratify a Related Party Transactions, the Committee/ Board, as the case may be, shall take into account among other factors it deems appropriate, whether the Related Party Transactions is in ordinary course of business of the Company and on arms-length basis and the extent of the related party's interest in the transaction. 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 or external professional advisors of its choice at the expense of the Company.

- 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 discussion in the matter.
- Members who are related parties in the context of the related party contract or arrangement for which ordinary resolution is to be passed to abstain from voting on ordinary resolution and only disinterested shareholder and disinterested related party shall be eligible to vote.
- Members who are related parties to abstain from voting on special resolution in respect of approval of material Related Party Transaction and only disinterested shareholder (not related party) shall be eligible to vote.
- 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 ordinary resolution in the general meeting under sub-section (1) of section 188 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.

5. Consequences of Non-compliance:

As under section 188 of the Companies Act, 2013:

Sr No.	Penalty for	Type of Company	Penalty on	Penalty Terms
1.	Entering into or authorizing any contract or arrangement in violation of provisions of Sec 188	Listed	Director or any other employee of a company who enters into it	Liable for a penalty of twenty-five lakhs rupees
2.	Being convicted of the offence of dealing with RPT under Sec 188 at any time during last preceding five years	Listed Company	Any person who commits the offence	Not eligible to be appointed as a director under section 164
3.	Any RPT or contract entered without seeking Board's and/or member's approval and if the same is not ratified by the board and/or members as the case may be, within three months at a Meeting	Listed Company	Any person who enters into such transaction or contract	The contract or transaction will be voidable at the option of the board and if such transaction is with related party to director or is authorized by any director, then concerned directors are liable to indemnify any loss incurred by the company.

Non Compliance under section 185 of the Companies Act, 2013:

Sr No.	Penalty on	Penalty Terms
1	Company	Punishable with fine in range of Rs 5-25 lakh
2	Director or the other person to whom any loan is advanced or guarantee or security is given or provided.	1. Punishable with imprisonment which may extend to six months 2. Punishable with fine between Rs 5-25 lakh. 3. Or with both.

Non Compliance under section 186 of the Companies Act, 2013:

Sr No.	Penalty on	Penalty Terms
1	Company	Punishable with fine ranging from 25 thousand Rs to 5 lakh Rs.
2	Officer in Default	1. Punishable with imprisonment which may extend to 2 years. 2. Punishable with fine between Rs 25 thousand to 1 lakh.

6. Disclosures:

The statute governing an enterprise often requires disclosure in financial statements of transactions with certain categories of related parties, considering the fiduciary nature of their relationship with the enterprise.

Disclosures required under different regulations are stated below:

A) Companies Act, 2013:

As per section 134, there shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include, among others, particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the prescribed form above.

As per section 186, the company shall disclose to the members in the financial statement the full particulars of the loans given, investment made or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilized by the recipient of the loan or guarantee or security. (includes loan to wholly owned subsidiaries)

Every contract or arrangement entered into under Section 188 sub-section (1) shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.

B) Regulation 23 of Listing Regulations:

The listed entity shall submit within 30 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.

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.

C) Accounting Standard 18:

As per AS 18, where control exists, name of the related party and nature of the related party relationship should be disclosed irrespective of whether or not there have been transactions.

A list of Related Party Transactions, if any, should be presented before the Audit Committee or Board of Directors or Shareholders for their required approval. The same can attached as an Annexure to the Policy as and when approved.

01st April, 2022

Effective Date

Revised on February 11,2022