



RELATED PARTY TRANSACTION POLICY

PREAMBLE

The Board of Directors (the "Board") of Natco Pharma Limited (the "Company" or "NATCO"), has adopted the following policy and procedures with regard to Related Party Transactions. The policy envisages the procedure governing Related Party Transactions required to be followed by the company to ensure compliance with the Laws and Regulations in force. The Audit committee will review the same from time to time and propose the amendment(s) required in the policy to the Board of Directors of the Company.

PURPOSE

This policy is intended to ensure the proper approval and reporting of transactions between the Company and its Related Parties in the best interest of the Company and its stakeholders.

The provisions of this policy are designed to govern the transparency of approval process and disclosures requirements to ensure fairness in the conduct of related party transactions, in terms of the applicable laws.

DEFINITIONS

"Audit Committee" or "Committee" means Committee of Board of Directors of the Company constituted under provisions of Listing Agreement and Companies Act, 2013.

"Board" means Board of Directors of the Company

"Company" means Natco Pharma Limited

"Control" shall have the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

"Key Managerial Personnel" means key managerial personnel as defined under the Companies Act, 2013 and Accounting Standards, as the case may be, and includes

- (i) Managing Director, or Chief Executive Officer or manager and in their absence, a whole-time director;
- (ii) Company Secretary; and
- (iii) Chief Financial Officer

"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, exceeds ten percent of the annual consolidated turnover of the company as per the last audited financial statements of the company.



“Ordinary Course of Business” means conduct of business activity within normal commercial customs and usages which is characterized by occurrence of one or more of the following factors:

1. That the business activity is normal or otherwise unremarkable
2. That the business activity is frequent
3. That the business activity is regular
4. That the business activity involves significant amount of money and resources
5. That the business activity is a source of income for the Company business
6. That the business activity is involved in a service or product that is offered to the Company’s customers

Note: Since interpretation of whether an activity would fall within the definition of “Ordinary Course of Business” is a question of judgment, in case of any difficulty, matters will be referred to the Board for ultimate consideration/decision.

“Policy” means this Related Party Transaction Policy.

“Related Party” means related party as defined in Companies Act 2013 and in Clause 49 of the Listing Agreement 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) director or his relative ;
- (ii) key managerial personnel or his relative ;
- (iii) firm, in which a director, manager or his relative is a partner ;
- (iv) 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 or 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 :
Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (viii) company which is –
 - (A) holding, subsidiary or an associate company of such company ; or
 - (B) subsidiary of a holding company to which it is also a subsidiary ;
- (ix) Director, other than an Independent Director or key managerial personnel of the holding company or his relative with reference to a company; or



- b. has control or joint control or significant influence over the company; or
- c. is a key management personnel of the company or of a parent of the company; or

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

- 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).
- h. A person identified in (1)(b) has significant influence over the entity (or of a parent of the entity); or
- i. The entity is a Related Party under the applicable Accounting Standards

“Related Party Transaction” means any transaction directly or indirectly involving any Related Party which is a transfer of resources, services or obligations between a company and a related party, regardless of whether a price is charged and includes:

- a. Sale or 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 sales of goods, materials, services or property
- f. Such Related Party’s appointment to any office or place of profit in the Company, its subsidiary companies or associates companies; and
- g. Underwriting the subscription of any securities or derivatives thereof, of the Company

Note: A “transaction” with a Related Party shall be construed to include single transaction or a group of transactions in a contract

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



- i. They are members of a Hindu undivided family;
- ii. They are husband and wife; or
- iii. Father (including step-father)
- iv. Mother (including step-mother)
- v. Son (including step-son)
- vi. Son's wife
- vii. Daughter
- viii. Daughter's husband
- ix. Brother (including step-brother)
- x. Sister (including step-sister)

POLICY & ROCEDURES

POLICY

All Related Party Transactions must be reported to the Audit Committee and referred for approval by the Committee in accordance with this Policy on regular basis (Section 177 (4) (iv) of Companies Act,2013). All Related Party Transactions done after 1st October 2014 shall require prior approval of Audit Committee. The Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered into by the Company subject to compliance with the following conditions:

- a. 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;
- b. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company;
- c. Such omnibus approval shall specify
 - a. The name of the Related Party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into;
 - b. The indicative base price / current contracted price, and the formulae for variation in the price if any; and
 - c. Such other conditions as the Audit Committee may deem fit
 - d. 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
- d. 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 approvals given;
- e. Such omnibus approvals shall be valid for a period not exceeding 1 year and shall require fresh approvals after expiry of one year.

For the transactions which are not in the Ordinary Course of Business or not in compliance to Arm's Length pricing or both will be put up for PRIOR approval to Board or Shareholders, if applicable (Section 188 of the Companies Act)



Further, all Material Related Party Transactions live on 01/04/2014 and continuing after 31/03/2015 will be presented to Shareholders in first Annual General Meeting after 1st October 2014 for their approval (Clause 49 of the Listing Agreement). After 01/10/2014, all Material Related Party Transactions will be carried out only after approval from Shareholders through special resolutions where all Related Parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not (Clause 49 of the Listing Agreement).

Voting

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 on arm's 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 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 discussions in the matter.
- Members who are Related Parties in the context of the related party contract or arrangement for which special resolution is to be passed to abstain from voting on special resolution and only disinterested Shareholder (not Related Party) shall be eligible to vote.

Related party transactions should be at Arm's Length Price (ALP):

- All Related Party transactions should be adequately supported by Contracts or purchase orders/ work order or sales order and documentations to justify ALP.
- If ALP cannot be justified for any transaction then approval should be taken from Board and Shareholders

Approval for Transactions entered by wholly owned Subsidiaries (WOS) which are not in Ordinary Course of Business/not on Arm's Length basis.

- For the Transactions which are not in Ordinary Course of Business or not as per Arm's Length pricing or both for any WOS of the Company, the same will be put up for prior approval to the Audit Committee, Board and Shareholders of the Company (Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014)) as amended.

PROCEDURE

A. 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.



B. Identification of Transaction with Related Parties

Each Director and Key Managerial Personnel is responsible for providing notice to the Company of any potential Related Party Transaction where he may be considered interested. Audit Committee will determine whether a transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy. The Directors and KMPs will ensure that their notice of any potential Related Party Transaction is delivered well in advance so that the Audit Committee has adequate time to obtain and review information about the proposed transaction.

C. Review and approval of Related Party Transaction

i. Audit Committee

All the transactions which are identified by the Audit Committee as Related Party Transactions should be pre-approved by the Audit Committee before entering into such transaction. The Company Secretary shall place the details of all Related Party Transactions in the subsequent meeting of the Audit Committee. The Audit Committee shall consider the following factors while deliberating the Related Party Transactions for its approval:

- Name of party and details explaining nature of relationship
- Nature of transaction and material terms thereof including the value, if any;
- The manner of determining the pricing to ascertain whether the same is fair and on arm's length basis.
- Business rationale for entering into such transaction
- Whether the transaction is in the ordinary course of business or not.
- Any other relevant or important information to take decision with regard to the proposed transaction.

Any member of the 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. If the committee determines that the a related party transaction is (i) a Material Related Party Transactions or (ii) Transactions are not in the ordinary course of business or not at the arm's length price, the Audit Committee shall place the matter before the Board for obtaining its approval.

ii. Board of Directors

Where approval of Board of Directors is required for any Related Party Transactions or if the Board in any case decides to review any such matter or it is mandatory under any law for Board to approve the Related Party Transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances. Any member of the Board who has any interest in any Related Party Transaction will abstain from discussion and voting on the approval of the Related Party Transaction.

iii. Shareholder approval

In case Board refers a Related Party Transaction for seeking approval of the Shareholders as per the provisions of Companies Act 2013 or otherwise, if any member of the Company is a Related Party as per this policy, such member of the Company shall not vote on resolution passed for approving such Related Party Transaction.



iv. Transactions which do not require approval

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

(a) Any transaction involving the providing of compensation to a Director or Key Managerial Personnel in connection with his duties to the Company including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.

(b) 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.

v. Related Party Transactions not approved under this Policy

If a Related Party Transaction is entered into by the Company without being approved under this Policy, the same shall be reviewed by the Committee. The Committee shall evaluate the transaction and may decide such action as it may consider appropriate including ratification, revision or termination of the Related Party Transaction. In connection with any review of a Related Party Transaction, the Committee has authority to propose to the Board to modify or waive any procedural requirements of this Policy.

DISCLOSURES

- Every Related Party Transaction with proper justification shall be disclosed in the Directors Report.
- Details of all Material Related Party Transactions with Related Parties shall be disclosed quarterly along with the compliance report on Corporate Governance.
- The Company shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report.
- The Policy will be communicated to all operational employees and other concerned personnel of the Company
