



PRECISION ELECTRONICS LIMITED

Policy on materiality of Related Party Transactions and dealing with Related Party Transactions

<u>Approver</u>	<u>Board of Directors</u> Revised Policy approved at the board meeting held on August 6, 2025
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I. PREAMBLE:

As per the nature of business and its requirements, Precision Electronics Limited (the “**Company**” or “**Precision**”), enters into transactions with related parties as defined in this Policy (“**Related Party Transactions**” or “**RPTs**”) for various purposes as provided under section 188(1) of the Companies Act, 2013, (the “**Companies Act**”) and regulation 23 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**the Listing Regulations**”) as may be amended, from time to time.

Industry Standards Forum (“**ISF**”) comprising of representatives from three industry associations viz., Associated Chambers of Commerce and Industry of India (“**ASSOCHAM**”), Competition Commission of India (“**CCI**”) and Federation of Indian Chambers of Commerce and Industry (“**FICCI**”) under the aegis of the Stock Exchange(s), has formulated industry standards, in consultation with Securities Exchange Board of India (“**SEBI**”), for minimum information to be provided for review of the audit committee and shareholders for approval of RPTs. SEBI vide its SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18 dated June 26, 2025, mandated all listed companies to follow the aforesaid industry standards pertaining to RPTs.

The Company recognizes that certain RPTs may have potential conflicts of interest, and such transactions should be carried out at fair values and on an arm's length basis.

The Board of Directors (“**the Board**”) of the Company has adopted Policy on Materiality of Related Party Transactions and Dealing with Related Party Transactions (“**Policy**”) based on the recommendation of the Audit Committee, and the Policy includes the materiality threshold and the manner of dealing with RPTs in compliance with the requirements of the Companies Act and the Listing Regulations. Any amendment from time to time in the Policy shall be considered by the Board based on the recommendation of the Audit Committee.

The Policy applies to the transactions between the Company and one or more related parties and/or any subsequent material modification(s) to the RPTs. The Policy provides the framework and mechanism for governance, reporting, and dealing with RPTs, including material RPTs.

The Policy shall be subject to periodic review and updated by the Board at an interval not exceeding three years from the date of its previous review/approval.

II. OBJECTIVES:

This Policy is intended to ensure due and timely identification, approval, disclosure, and reporting of transactions between the Company and any of its related parties in compliance with the applicable laws and regulations as may be amended from time to time.

The provisions of this Policy are designed to govern the approval process and disclosure requirements to ensure transparency in the conduct of RPTs in the best interest of the Company and its shareholders and to comply with the statutory provisions in this regard.

III. DEFINITIONS:

In this Policy, unless the context otherwise requires:

- (a) "**Audit Committee ('Committee')**" means the committee of the Board constituted from time to time under the provisions of regulation 18 of the Listing Regulations and section 177 of the Companies Act.
- (b) "**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.
- (c) "**Associate Company**", means the Company as defined in sub-section 6 of section 2 of the Companies Act.

Explanation-For the purposes of this clause, "significant influence" means Control of at least twenty per cent of total share capital or of business decisions under an agreement.

- (d) "**Board**" means the Board of Directors of the Company.
- (e) "**Companies Act**" shall mean the Companies Act, 2013 and the Rules framed thereunder, including any modifications, amendments, clarifications, circulars, notifications, orders to remove difficulties or re-enactments thereof.
- (f) "**Control**" has the same meaning as defined in SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.
- (g) "**Financial Year**" shall mean the period beginning from 1st April of every year to 31st March of the succeeding year.
- (h) "**Holding Company**" means the Company as defined in sub-section 46 of section 2 of the Companies Act.
- (i) "**Key Managerial Personnel**" ("**KMP**"), in relation to a company, means those persons as defined in sub-section 51 of section 2 of the Companies Act.
- (j) "**Material Modification(s)**" shall mean and include any modification(s) to an existing related party transaction in excess of 20% of the existing limit as approved by the Audit Committee / Board / Shareholders, as the case may be, and would require prior approval of the Committee.
- (k) "**Material Related Party Transactions**": shall mean a transaction as defined under section 188(1) of the Companies Act and regulation 2(1)(zc) of the Listing Regulations with a Related Party defined under section 2(76) of the Companies Act and regulation 2(1)(zb) of the Listing Regulations, where the aggregate value of transaction(s) to be entered into

individually or taken together with previous transaction(s) during a financial year, exceeds the threshold limits as may be prescribed under the Listing Regulations, the Companies Act and Rules made thereunder 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, exceeds the threshold limits as may be prescribed under the Listing Regulations from time to time.

Further, transactions with a related party shall be construed to include a single transaction or a group of transactions in a contract.

- (l) "**Office or Place of Profit**" shall have the same meaning as defined in section 188 of the Companies Act and rules made thereunder.
- (m) "**Ordinary course of business**" means the usual transactions, customs and practices undertaken by the Company to conduct its regular business operations and activities, in furtherance of the Company's business objectives, and includes all such activities, which the Company can undertake as provided in the Memorandum and the Articles of Association. The Board and the Committee may lay down principles for determining the ordinary course of business in accordance with statutory requirements and other industry practices and guidelines. The guiding principles set down under **Appendix A**, which may be amended from time to time in accordance with the statutory requirements and other industry practices and guidelines.
- (n) "**Policy**" means this Policy on materiality of Related Party Transactions and dealing with Related Party Transactions.
- (o) "**Relative**" shall mean "relative" as defined in section 2(77) of the Companies Act.
- (p) "**Related Party (ies)**" means such individual or entity as defined as related party under section 2(76) of the Companies Act read with rules framed thereunder and regulation 2(1)(zb) of the Listing Regulations.
- (q) "**Related Party Transactions**" ("**RPTs**") means any transactions as provided under clause (a) to (g) of sub-section (1) of section 188 of the Companies Act and corresponding rules thereto and as defined in clause (zc) of sub-regulation (1) of regulation 2 of the Listing Regulations, and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.
- (r) "**Subsidiary**" means a subsidiary as defined in regulation 2(1)(zm) of the SEBI Listing Regulations.

- (s) “**Listing Regulations**” means the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.

Words and expressions used and not defined in the Policy shall have the same meanings respectively assigned to them in the Companies Act and/or the Listing Regulations.

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

IV. IDENTIFICATION OF RELATED PARTIES:

Every Director and KMP will be responsible for providing a declaration in the prescribed format containing the following information to the Company on an annual basis:

- (i) Name of his/her relatives,
- (ii) Partnership firm in which he/she or his / her relative is a partner,
- (iii) Private Companies in which he/she or his / her relative is a member or Director,
- (iv) Public Companies in which he/she is a Director and holds, along with his / her relatives, more than 2% of paid-up share capital,
- (v) Anybody corporate whose Board of Directors / Managing Director is accustomed to act in accordance with his/her advice, direction, or instructions and
- (vi) Persons on whose advice, directions, or instructions he/she is accustomed to act (other than advice, direction, or instructions obtained from a person in a professional capacity).

Every Director and KMP will also be responsible for updating the Company Secretary of any changes in the above relationships, directorships, holdings, interests and/or controls immediately on his/her becoming aware of such changes.

The Company Secretary shall be responsible for maintaining an updated database of information pertaining to Related Parties reflecting details of-

1. All Directors and KMP;
2. All individuals, partnership firms, companies, and other persons as declared and updated by Directors and KMP;
3. Company’s holding company, subsidiary companies, and associate companies;
4. Subsidiaries of holding company;
5. Directors and KMP of the holding company or their Relatives;
6. All Group entities; and

7. Any other entity which is a Related Party as defined under section 2(76) of the Companies Act, read with 2(1)(zb) of the Listing Regulations.

The database shall be updated whenever necessary and shall be reviewed at least once a year jointly by the Company Secretary and the Chief Financial Officer. The Functional / Business Heads / Chief Financial Officer / Company Secretary / shall have access to the updated database.

Every Director, KMP, Functional/Business Heads/Chief Financial Officer will be responsible for providing prior notice to the Company Secretary of any potential RPTs. They will also be responsible for providing additional information about the transaction that the Board / Committee may request, for being placed before the Committee and the Board.

The Company Secretary will inform the Directors and KMP, the suggested details and list of records and supporting documents that are required to be provided along with the notice of the proposed transaction.

V. REVIEW AND APPROVAL OF RPTs, INCLUDING MATERIAL RPTs:

A. Audit Committee:

- All RPTs and subsequent material modification(s) to RPTs shall be subject to prior approval of the Committee, whether at a meeting or by way of a resolution by circulation or through electronic mode or any other manner as provided by the Companies Act or the Listing Regulations.
- A member of the Committee who has a potential interest in any RPTs or subsequent material modification(s) to RPTs will in terms of Rule 15(2) of the Companies (Meeting of Board and its Powers) Rules, 2014 shall not remain present at the meeting or will abstain from discussion and voting on such RPT and shall not be counted in determining the presence of a quorum when such a transaction is considered.
- RPTs where the Company's subsidiary is a party, but the Company is not a party, shall require prior approval of the Committee if the value of such transaction, whether entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the consolidated turnover of the Company, as per the last audited financial statements of the Company.
- With effect from April 1, 2023, RPTs to which the Company's subsidiary is a party but the Company is not a party, shall require prior approval of the Committee, if the value of such transaction, whether entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual

standalone turnover of such subsidiary, as per the last audited financial statements of such subsidiary.

Provided that the prior approval of the Committee of the Company shall not be required for RPTs to which the listed subsidiary is a party, but the Company is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of the Listing Regulations are applicable to such listed subsidiary.

Explanation: For RPTs of unlisted subsidiary(ies) of the Company as referred above, prior approval of the Committee of such listed subsidiary shall suffice.

- Remuneration and sitting fees paid by the Company or its subsidiary to its director, key managerial personnel, or senior management, except those who are part of the promoter or promoter group, shall not require approval of the Committee, provided that the same is not material in terms of the provisions of sub- regulation (1) of regulation 23 of the Listing Regulations.
- All RPTs and/or subsequent material modification(s) to RPTs shall be approved only by the Independent Directors who are the members of the Committee.
- The members of the Committee, who are independent directors, may ratify RPTs as per the provisions of the Listing Regulations and ISF, as may be applicable and amended from time to time.
- While considering the RPTs, the Audit Committee shall be provided with all the prescribed information/details, as may be applicable, as prescribed by the ISF vide its industry standards.

B. Board of Directors:

- If the Committee determines that RPTs 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 law for Board to approve the RPTs, then the Board shall consider and approve the RPTs at a meeting and 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.
- Approval of the Board will be required, at a meeting, for any transaction with Related Parties, which are either not in the ordinary course of business or not on an arm's length basis.
- Approval of the Board will be required, at a meeting, for all Material RPTs and any subsequent Material Modifications to RPTs, which are intended to be placed before the shareholders for approval.

Information in such form and manner as prescribed in the Companies Act and/or the Listing Regulations shall be provided to the Board.

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.

C. Shareholders:

- All Material RPTs and subsequent material modifications as defined by the Committee shall require prior approval of the shareholders through resolution and all related parties shall not vote to approve such resolution, irrespective of whether the entity is a party to the particular RPT or not.
- If a RPT is not in the ordinary course of business, or not at an arm's length price, and exceeds certain thresholds as prescribed under Section 188 of the Companies Act, the Listing Regulations, it shall require shareholders' approval. The Related Parties shall abstain from voting as shareholders in case of RPTs that require the approval of shareholders.
- Prior approval of the shareholders of the Company shall not be required for RPTs to which the listed subsidiary is a party, but the Company is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of the Listing Regulations are applicable to such listed subsidiary.

Explanation: For RPTs of unlisted subsidiaries of a listed subsidiary as referred above, the prior approval of the shareholders of the listed subsidiary shall suffice.

- D.** Transactions as prescribed under regulation 23(5) of the Listing Regulations shall be exempted from prior approval of the Audit Committee and Shareholders.

VI. CONSIDERATION BY THE COMMITTEE, WHILE APPROVING RPTs:

While considering any transaction, the Committee shall take into account all relevant facts and circumstances, including the name of the party and details explaining the nature of the relationship, duration of the contract, and the particulars of the proposed transaction, the terms of the transaction, the business purpose of the transaction, the benefits to the Company, and any other relevant matters.

Prior to the approval, the Committee shall, inter-alia, consider the following factors to the extent relevant to the transaction:

- a. Whether the terms of the RPT 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;

- b. Whether there are any compelling business reasons/rationale for the Company to enter into the RPT and the nature of alternative transactions, if any;
- c. Whether the Company was notified about the RPT 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.
- d. Whether the RPT includes any potential reputational risks that may arise as a result of or in connection with the proposed Transaction; and
- e. Whether the RPT would affect the independence or present a conflict of interest for any Director or KMP of the Company, taking into account the size of the transaction, the overall financial position of the Director, KMP or other Related Party, the direct or indirect nature of the Director's interest, KMP's or other Related Party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors, the Committee deems relevant.

While considering the arm's length nature of the transaction, the Committee shall take into account the facts and circumstances as were applicable at the time of entering into the transaction with the Related Party. The Committee shall take into consideration that subsequent events (i.e. events after the initial transactions have commenced) like evolving business strategies/short term commercial decisions to improve/sustain market share, changing market dynamics, local competitive scenario, economic/regulatory conditions affecting the global/domestic industry, may impact profitability but may not have a bearing on the otherwise arm's length nature of the transaction.

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

VII. APPROVAL BY CIRCULAR RESOLUTION OF THE COMMITTEE:

In the event the Company management determines that it is impractical or undesirable to wait until a meeting of the Committee to enter into an RPT or to materially modify the RPT, such transaction / material modification may be approved by the Committee by way of a circular resolution in accordance with this Policy and statutory provisions for the time being in force. Any such approval must be ratified by the Committee at its next scheduled meeting.

VIII. STANDING PRE-APPROVAL / OMNIBUS APPROVAL BY THE COMMITTEE:

In the case of frequent/regular/repetitive transactions to be entered into by the Company/subsidiaries, which are in the normal course of business of the Company, the Committee may grant standing pre-approval/omnibus approval. While granting such

approval, the Committee shall satisfy itself of the need for omnibus approval and that the same is in the interest of the Company. The omnibus approval shall specify the statutory information as may be specified in the Companies Act, the Listing Regulations, and ISF, as may be amended from time to time.

Such omnibus approval shall specify the following: -

- a. Name(s) of the Related Party;
- b. Nature of the transaction;
- c. Period of transaction;
- d. Maximum amount of transaction that can be entered into;
- e. The indicative base price/current contracted price and the formula for variation in the price, if any, and;
- f. Such other conditions as the Committee may deem fit.

Such transactions will be deemed to be pre-approved and may not require any further approval of the Committee for each specific transaction unless the price, value or material terms of the contract or arrangement have been varied/amended. Any proposed variations/amendments to these factors shall require prior approval of the Committee.

Further, where the need of the RPT cannot be foreseen and all prescribed details are not available, the Committee may grant omnibus approval subject to the value per transaction not exceeding Rs. 1/- Crore (Rupees One Crore only). The details of such a transaction shall be reported at the next meeting of the Committee for ratification. Further, the Committee shall, on an annual basis, review and assess such transactions, including the limits to ensure that they are in compliance with this Policy.

The omnibus approval shall be valid for a period of one year, and fresh approval shall be obtained after the expiry of one year. However, the Committee shall review, on a quarterly basis, the details of RPTs entered into by the Company or its subsidiaries pursuant to each of the omnibus approval given.

IX. APPLICABILITY OF INDUSTRY STANDARDS ON MINIMUM INFORMATION TO BE PROVIDED FOR REVIEW OF THE COMMITTEE AND SHAREHOLDERS FOR APPROVAL OF A RELATED PARTY TRANSACTION:

These standards, as provided in the SEBI Circular SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18 dated June 26, 2025, with effect from September 01, 2025, are structured as under:

Part A: This Part of the Standards captures the minimum information of the proposed RPT and is applicable to all RPTs placed for review and approval by the Committee.

Part B: This Part is applicable only if a specific type of RPT is proposed to be undertaken and is in

addition to Part A. *Seven types of RPTs have been specified as per the circular.*

Part C: This Part is applicable to material RPTs placed for approval of both the Committee and shareholders. and is in addition to Part A and Part B (with respect to such RPT).

These Industry Standards are not applicable for:

- i. Transactions *exempted under Regulation 23(5)* of the Listing Regulations i.e.:
 - a. Transactions entered into between two public sector Companies
 - b. Transactions between a holding company and its wholly owned subsidiary Company.
 - c. Transactions between two wholly-owned subsidiaries of the listed holding company.
 - d. Transactions involving payment of statutory dues, fees, or charges between an entity and the Central or State Government.
 - e. Transactions between a public sector company and the Central and/or State Government.
- ii. Quarterly review of RPTs by the Committee in terms of Regulation 23(3)(d) of the Listing Regulations.
- iii. Transactions (individually or together) not exceeding Rupees One Crore.

With effect from September 01, 2025, or such other date as maybe prescribed by the SEBI, the RPTs entered into by the Company shall be required to obtain the following approvals by disclosing information. provided below:

A. Audit Committee:

- a. Minimum Information to be provided to the Committee to approve the RPTs as prescribed under the SEBI Circular.
- b. Additional information to be provided for specific types of RPTs as provided in the SEBI Circular for the below:
 - i. Sale/Purchase/Supply of goods or services/any other similar business transaction/trade advances
 - ii. Loans and advances (other than trade advances) or inter-corporate deposits given by the listed entity or its subsidiary:
 - iii. Investment made by the listed entity or its subsidiary:
 - iv. Guarantee (including performance guarantee in the nature of security or contractual commitment impacting the issuer monetarily)/surety/indemnity/comfort letter, by whatever name called, made or given by the listed entity or its subsidiary:
 - v. Borrowing by the listed entity or its subsidiary:
 - vi. Sale/ lease/ disposal of assets of a subsidiary/unit/division/undertaking of the listed entity/disposal of shares of a subsidiary or associate
 - vii. Payment of Royalty

- c. Additional information to be provided for Specific Material RPTs as provided in the SEBI Circular for the below:
 - i. Transactions relating to any loans and advances (other than trade advances), inter-corporate deposits given by the listed entity or its subsidiary:
 - ii. Investment made by the listed entity/Subsidiary
 - iii. Guarantee (including performance guarantee in the nature of security or contractual commitment impacting the issuer monetarily)/surety/indemnity/comfort letter, by whatever name called, made or given by the listed entity or its subsidiary
 - iv. Borrowing by the listed entity or its subsidiary
 - v. Sale/lease/ disposal of assets of a subsidiary or of unit/ division/undertaking of the listed entity/disposal of shares of a subsidiary or associate
 - vi. Payment of Royalty

B. Shareholders:

The explanatory statement of notice of general meeting for informed decision making about proposed RPTs shall provide the requisite disclosures as prescribed in the SEBI Circular.

X. RELATED PARTY TRANSACTIONS NOT PREVIOUSLY APPROVED:

In the event the Company becomes aware of an RPT that has not been approved or ratified under this Policy, the transaction shall be placed as promptly as practicable before the Committee or Board, or the Shareholders, as may be required in accordance with this Policy for review and ratification.

The Committee or the Board or the Shareholders shall consider all relevant facts and circumstances respecting such transaction and shall evaluate all options available to the Company, including but not limited to ratification, revision, or termination of such transaction, and the Company shall take such action as the Committee/Board deems appropriate under the circumstances.

The members of the committee, who are independent directors, may ratify RPTs within three months from the date of the transaction or in the immediate next meeting of the committee, whichever is earlier, subject to the following conditions:

- a. The value of the ratified transaction(s) with a related party, whether entered into individually or taken together, during a financial year shall not exceed rupees one crore;
- b. the transaction is not material in terms of the provisions of Reg. 23(1) of the Listing Regulations;
- c. Rationale for inability to seek prior approval for the transaction shall be placed before the committee at the time of seeking ratification;

- d. the details of ratification shall be disclosed along with the disclosures of RPTs in terms of the Reg. 23(9) of the Listing Regulations;
- e. any other condition as specified by the committee.

Provided that failure to seek ratification of the committee shall render the transaction voidable at the option of the 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.

XI. DISCLOSURE AND REPORTING OF RPTs:

Every (i) material contract or (ii) contract which is not in ordinary course of business and/or not on an arm's length basis, entered into by the Company with the Related Party shall be referred to in the Board's report to the shareholders along with justification for entering into such a transaction. The Company Secretary and the Chief Financial Officer shall be responsible for such disclosure. The Company Secretary shall also make necessary entries in the Register of Contracts required to be maintained under the Companies Act.

The Company shall submit to the Stock Exchange(s) the disclosures of RPTs on a half yearly basis as per the timelines as prescribed under regulation 23(9) of the Listing Regulations, as may be amended from time to time.

XII. SCOPE LIMITATION:

In the event of any conflict between the provisions of this Policy and of the Listing Regulations / Act or any other statutory enactments, rules, the provisions of such Listing Regulations / Act or statutory enactments, rules shall prevail over this Policy.

XIII. DISSEMINATION OF POLICY:

Either this Policy or the important provisions of this Policy shall be disseminated to all functional and operations employees and other concerned persons of the Company and shall be hosted on the website of the Company, and a web link thereto shall be provided in the annual report of the Company.

XIV. REVIEW OF POLICY:

The Company Secretary and, in his absence, the Chief Financial Officer shall amend this Policy consequent to changes in applicable laws and regulations. Any such change will be placed before the next Committee and Board meeting.

Appendix A

Determination of Ordinary Course of Business

Background:

Section 188(1) of the Companies Act, 2013 ("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 made thereunder, it will also be put up for prior approval of the Shareholders through special resolutions.

Accordingly, for transactions meeting both the criteria in the third 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 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 may be very subjective, judgmental and can vary on case to business' 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 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:

International Standard on Auditing ("ISA") 550- 'Related Parties' has listed certain illustrative (not exhaustive) examples of the same:

- Complex equity transaction, such as corporate restructurings or acquisitions.
- Transactions with offshore entities in jurisdictions with weak corporate laws.
- The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
- Transactions with circular arrangements, for example, sales with a commitment to repurchase; and

- Transactions under contracts whose terms are changed before expiry.

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

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

- The objects of the company permit such activity.
- It is a historical practice and there is a pattern of frequency (and not an isolated transaction).
- It has a connection with the normal business carried on by the company.
- 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
- 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:

- **Whether the transaction is covered in its Memorandum of Association:**
If the transaction is covered in the objects clause of the Memorandum of Association then it is likely to be in ordinary course of business of the company.
- **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 line of business.
- **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/products sold and the normal expenses incurred for operating the business uninterrupted ly 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