

Policy on
Materiality of Related Party Transactions
and
on dealing with Related Party Transactions
(RPT Policy)

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PART A: BACKGROUND

The Companies Act, 2013 and SEBI (LODR) Regulations, 2015 govern approval/review/reporting associated with Related Party Transactions that are entered into by companies

Section 188 of the Companies Act, 2013 read with the Companies (Meetings of Board and its Powers) Rules, 2014 prescribe the approval mechanism for Related Party Transactions (RPTs), which, depending upon the value of transactions could vest with Board of Directors or Shareholders of the Company. Further, Section 177 of the Companies Act, 2013 read with the Companies (Meetings of Board and its Powers) Rules, 2014 prescribe the terms of reference of the Audit Committee which inter alia includes review and approval of RPTs.

Regulation 23(1) of SEBI (LODR) Regulations, 2015 requires listed entities to formulate a policy on 'Materiality of Related Party Transactions and on dealing with Related Party Transactions' (RPT policy). By virtue of an amendment that came into effect from 01.04.2019, the Board shall review and update the policy at least once every three years, including the fixation of various threshold limits. While prescribing the role of Audit Committee and the Board of the Company in formulating the RPT Policy, the Regulations cover the monitoring aspects of RPTs executed by the Company from time to time.

The recent amendments in SEBI (LODR) Regulations, 2015 have not only enlarged the applicability of RPTs/Material RPTs, but also made it necessary for Audit Committee to define "Material Modification" to the RPTs. Further, RPTs shall have to be approved by those of the Members in the Audit Committee who are Independent Directors.

The approval of Related Party Transactions (RPTs) including Material Related Party Transactions (Material RPTs) of the Company with its Related Parties is governed by a Board approved policy, i.e. "Policy on Materiality of Related Party Transactions and on dealing with Related Party Transactions". The existing RPT Policy is approved by the Board in its 580th meeting held on 13/02/2015, preceded by review and recommendation of it in the 81st Audit Committee meeting held on the same date.

In view of the statutory/regulatory requirements stated above, the Board of Directors of the Company ("HPCL" or "the Company"), acting upon the recommendations of the Audit Committee, has approved and adopted the revised 'RPT policy'. This policy is formulated primarily from the prescriptions of Companies Act, 2013, Rules framed thereunder, SEBI (LODR) and also drawing relevant provisions from Indian Accounting Standards (Ind AS). Considering that many of the

aspects of RPTs have been dealt with both under the Statute and Regulations, this policy document contains the relevant extracts (not necessarily a verbatim re-production) that aid in understanding the policy. Wherever found necessary, this policy document briefly contains a descriptive note carrying the critical aspects of Statute/Regulations under the caption, 'Important Aspects' with an objective to aid the approval process.

The RPTs as defined in this Policy that are executed by the company from time to time are subject to review in accordance with the procedures set forth in this policy.

This Policy comes into effect from 01/04/2022.

PART B: PURPOSE

This policy is framed to ensure proper review, approval and reporting of Related Party Transactions of the company in compliance of the requirements of Companies Act, 2013 together with relevant rules/SEBI (LODR) Regulations, 2015.

PART C: DEFINITIONS

A. Arm's length transaction

A transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

[Section 188 of Companies Act, 2013]

B. Government Company

Government Company means any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Here, "paid up share capital" shall be construed as "total voting power", where shares with differential voting rights have been issued.

[Section 2(45) of Companies Act, 2013]

C. Ordinary Course of business

Though not specifically defined, it is important to know the meaning of it in the governance of RPTs. This phrase can be understood to have the following meaning:

Includes, but not limited to, activities that are necessary, normal, and incidental to the business.

In terms of the Guidance Note issued by the Institute of Company Secretaries of India, to decide whether an activity which is carried on by the business is in the 'ordinary course of business', the following factors may be considered:

- a) Whether the activity is covered in the objects clause of the Memorandum of Association?
- b) Whether the activity is in furtherance of the business?
- c) Whether the activity is normal or otherwise routine for the particular business (i.e. activities like advertising, staff training, etc.)?
- d) Whether the activity is repetitive/frequent?
- e) Whether the income, if any, earned from such activity/transaction is treated as business income in the company's books of account?
- f) Whether the transactions are common in the particular industry?
- g) Whether there is any historical practice to conduct such activities?

- h) The financial scale of the activity with regard to the operations of the business.
- i) Revenue generated by the activity
- j) Resources committed to the activity

D. Related Party

The term as defined under Companies Act, 2013, SEBI LODR and Ind Accounting Standards are relevant and the same is re-produced hereunder:

Related Party in relation to an entity means:

- a) Such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- b) Such entity is a related party under the applicable Accounting Standards;
- c) any person or entity forming a part of the promoter or promoter group of the listed entity;
or
- d) any person or any entity, holding equity shares: (i) of twenty per cent or more; or (ii) of ten per cent or more, with effect from April 1, 2023 in the listed entity either directly or on a beneficial interest basis as provided under Section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year shall be deemed to be a related party.

[Regulation 2(1)(zb) of SEBI (LODR) Regulations, 2015]

Related Party in relation to a company means:

- a) a director or his relative;
- b) a key managerial personnel or his relative;
- c) a firm, in which a director, manager or his relative is a partner;
- d) a private company in which a director or manager or relative is a member or director;
- e) 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;
- f) 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;
- g) any person on whose advice, directions or instructions a director or manager is accustomed to act;
- h) Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

- i) any body corporate which is:
 - ✓ a holding, subsidiary or an associate company of such company;
 - ✓ a subsidiary of a holding company to which it is also a subsidiary; or
 - ✓ an investing company or the venturer of the company.

Explanation.—For the purpose of this clause, “the investing company or the venturer of a company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate];

- j) A Director (other than an Independent Director) or KMP of the holding company of such company or his relative. [Rule 3 of the Companies (Specification of definition details) Rules, 2014.

[Section 2(76) of the Companies Act, 2013]

A related party is a person or entity that is related to the entity that is preparing its financial statements (in the Standard referred to as the ‘reporting entity’).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control of the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity, if any of the following conditions apply:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. 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).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

- viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

[Ind Accounting Standard - 24]

E. Related Party Transactions:

Related party transactions mean contracts or arrangements between a company and its related parties with respect to transactions covered in Section 188 of the Act. The expression 'contract or arrangement' has different connotations under the Act. While 'contract' envisages a written / formal binding document, 'arrangement' may be with or without a written document.

Related Party Transaction includes the following contract or arrangements between the related parties:

- a) sale, purchase or supply of any goods or materials;
- b) selling or otherwise disposing of, or buying, property of any kind;
- c) leasing of property of any kind;
- d) availing or rendering of any services;
- e) appointment of any agent for purchase or sale of goods, materials, services or property;
- f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
- g) Underwriting the subscription of any securities or derivatives thereof, of the company;

[Section 188 of the Companies Act, 2013]

"Related party transaction" means a transaction involving a transfer of resources, services or obligations between:

- a) 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
- b) 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, regardless of whether a price is charged. A "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract. [with effect from April 1, 2023].

Provided that the following shall not be a Related Party Transactions:

- 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 / NBFCs 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:

[Regulation 2(1)(zc) of SEBI (LODR) Regulations, 2015]

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

[Ind Accounting Standard - 24]

Important Aspects:

- a) Any RPT entered into by HPCL on the ONE PART and any of the following Parties (19 No. in all) on the OTHER PART would qualify to be RELATED PARTY TRANSACTIONS.
 - i. Directors or their relatives
 - ii. Key Managerial Personnel(KMPs) or their relatives or their close family members
 - iii. Directors (other than independent directors), KMPs, or their relatives, or their close family members of the holding company
 - iv. Group entities (i.e. ultimate holding company, holding company, subsidiary, subsidiary of the holding company to which the reporting entity is also a subsidiary i.e. fellow subsidiary)
 - v. Associate or joint venture company of the reporting entity or of its Group's
 - vi. Any body corporate in which the promoter holds 20% or more equity share capital and/or any body corporate which holds 20% or more equity share capital of the promoter
 - vii. Related parties of subsidiaries
 - viii. Entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity

- ix. Person or an entity holding equity shares of 20% or more (10% or more w.e.f. 01.04.2023) in the reporting entity directly or on a beneficial interest basis at any time during the immediate preceding financial year
 - x. Entity, where the reporting entity and such entity are joint ventures of the same third party
 - xi. One entity is a joint venture of a third entity and the other entity is an associate of the third party
 - xii. Entities controlled/jointly controlled by KMPs (including their close family member) of reporting entity or of the parent company
 - xiii. A Person or a close member of that person's family, if such person has control or joint control or significant influence or entities controlled/jointly controlled by such person
 - xiv. Entity where a person or close member of that person's family has significant influence or is a member of the KMP of the entity or of its parent company and such person has control or joint control over reporting entity
 - xv. A firm or private company in which a director, manager* or their relative is a partner/member or director
 - xvi. A public company, in which a director, manager* is a director and holds along with relatives more than 2% of its paid-up share capital
 - xvii. Any body corporate whose Board of Directors, MD or manager* is accustomed to act in accordance with the advice, directions or instructions of a director or manager* of the reporting entity [other than in professional capacity].
 - xviii. Any person on whose advice, directions or instructions a director or manager* of the reporting entity is accustomed to act [other than in professional capacity].
 - xix. A body corporate whose investment in the reporting entity would result in the entity becoming associate company of the body corporate.
- * An individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of the affairs of the company, and includes a director or any other person occupying the position of a manager, by whatever name called, whether under a contract of service or not.
- b) In addition, RPTs would also include all those transactions wherein HPCL's any of the Subsidiary on the ONE PART and any of the 19 PARTIES (referred to above) on the OTHER PART. i.e. even in the absence of HPCL being a PARTY to the Transaction, as long as any of its subsidiaries is a PARTY, the said RPT could become a RPT requiring HPCL's Audit Committee approval [Under SEBI LODR Regulations]

F. Material Related Party Transactions

- a) The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions including clear threshold limits duly approved by

the board of directors and such policy shall be reviewed by the board of directors at least once every three years and updated accordingly.

Explanation: 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 percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity whichever is lower.

- b) 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 five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.

[Regulation 23(1) of SEBI (LODR) Regulations, 2015]

- c) The transactions which are not on Arm's Length Basis and/or are not in the Ordinary Course of Business and those specified transactions exceeding prescribed limits require the prior approval of the shareholders [see point no.3 under 'important aspects'].

[Section 188 of the Companies Act, 2013 read with related rules]

Important aspects:

1. The prescription under the SEBI Regulation is that listed entity shall have a policy on materiality of RPTs and on dealing with RPTs. While so prescribing, threshold limits have been specified enabling determination of those RPTs which require the approval of the Shareholders. The SEBI Regulations have defined these RPTs as Material RPTs.

While the Regulations defined the materiality threshold, the Board of Directors shall prescribe a threshold and it shall form part of RPT Policy.

2. The limit of Rs.1000 Crore mentioned above [Under 'Explanation' to 'a)' above] is effective 01.04.2022. Prior to this, the only threshold had been "fixation of a % of consolidated turnover".
3. Under Companies Act, except with the prior approval of the Shareholders of the company, there are few RPTs (refer to 'c' above), which cannot be entered into by the company. For simplicity, these are termed as 'Material RPTs'. The nature of these transactions together with prescribed threshold limits are:

Particular	Threshold
Sale, purchase or supply of any goods or materials, directly or through appointment of agent*	Amounting to 10% or more of the turnover of the company
Selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent*	Amounting to 10% or more of net worth of the company
Leasing of property of any kind*	Amounting to 10% or more of the turnover of the company
Availing or rendering of any services, directly or through appointment of agent*	Amounting to 10% or more of the turnover of the company
Appointment to any office or place of profit in the company, its subsidiary company or associate company	monthly remuneration > Rs. 2.5 Lakh
Remuneration for underwriting the subscription of any securities or derivatives thereof	Exceeding 1% of the net worth

* Limits specified shall apply for transaction or transactions to be entered individually or taken together with previous transactions during a financial year.

Explanation: The Turnover or Net Worth referred above shall be based on the audited Financial Statement of the preceding financial year.

G. Material Modifications

- All related party transactions and subsequent material modifications shall require prior approval of the audit committee of the listed entity.
- The audit committee of a listed entity shall define "material modifications" and disclose it as part of the policy on materiality of related party transactions and on dealing with related party transactions;

[Regulation 23(2) of SEBI (LODR) Regulations, 2015]

Material Modification is not defined in the SEBI Regulations and Audit Committee has been entrusted to define the same, which is duly defined in the Policy.

H. Relatives

Anyone who is related to another, if

- they are members of a Hindu Undivided Family;

- b) they are husband and wife; or
- c) a person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:- [Rule 4 of Companies (Specification of Definition Details) Rules, 2014]
 - i. Father: Provided that the term "Father" includes step-father.
 - ii. Mother: Provided that the term "Mother" includes the step-mother.
 - iii. Son: Provided that the term "Son" includes the step-son.
 - iv. Son's wife.
 - v. Daughter.
 - vi. Daughter's husband.
 - vii. Brother: Provided that the term "Brother" includes the step-brother;
 - viii. Sister: Provided that the term "Sister" includes the step-sister;

[Section 2(77) of the Companies Act, 2013]

I. Key Managerial Personnel's (KMPs)

In relation to a company, means:

- a) the Chief Executive Officer or the managing director or the manager;
- b) the company secretary;
- c) the whole-time director;
- d) the Chief Financial Officer;
- e) 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
- f) such other officer as may be prescribed under Companies Act, 2013. [Officer includes any director, or manager or key managerial personnel or any person in accordance with whose directions or instructions the Board of Directors or any one or more of the Directors is or are accustomed to act]

[Section 2(51) of Companies Act, 2013. Regulation 2(1)(o) has extended the same meaning for LODR purposes]

J. Subsidiary Company

"subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—

- i. controls the composition of the Board of Directors; or
- ii. exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation.—For the purposes of this clause,

- a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- c) the expression "company" includes any body corporate;
- d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

[Section 2(87) of Companies Act,2013]

[Under Regulation 2(1)(zm) of SEBI (LODR) Regulations,2015, the term Subsidiary Company shall have the same meaning as specified under Companies Act, 2013]

PART D: STATUTORY/REGULATORY PROVISIONS GOVERNING APPROVAL

This part deals with approval to execute a RPTs including Material RPTs either from the Audit Committee or the Board of Directors of the company or the shareholders. This part also deals with Material Modifications requiring the approval of Audit Committee.

A. Approval of Audit Committee:

- i) Every RPT executed at arm's length and/or in the ordinary course of business including subsequent modification, if any, requires Audit Committee's approval. However, no such approval is required for transactions carried out at arm's length and/or in the ordinary course of business between Holding Company & its wholly owned subsidiary.
- ii) Wherever transactions as prescribed U/s 188 of the Companies Act, 2013 are not carried out at arm's length and/or in the ordinary course of business, these require approval of either the Board and/or the Shareholders. However, in the event of such transactions being executed between Holding Company and its wholly owned subsidiary, whose accounts are consolidated with Holding Company and placed before the shareholders at the General Meeting for approval, the approval of shareholders is not envisaged. Hence, these require Audit Committee's approval and Board's approval.
- iii) Wherever the Audit Committee is vested with the authority to approve a RPT and if the Committee exercises its powers not to approve, it shall make its recommendations to the Board.
- iv) 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 the 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 authorized by any other director, the director concerned shall indemnify the company against any loss incurred by it.

[Section 177(4)(iv) of Companies Act, 2013; 1st and 5th proviso to Section 188(1) of Companies Act, 2013]

- i) All RPTs and subsequent material modifications shall require prior approval of the Audit Committee of the listed entity.

Provided that only those members of the committee who are independent directors shall approve RPTs.

Provided further that:

- a) the audit committee of a listed entity shall define “material modifications” and disclose it as part of the policy on materiality of related party transactions and on dealing with related party transactions;
- b) a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year exceeds ten per cent of the annual consolidated turnover, as per the last audited financial statements of the listed entity (effective 01/04/2022);

[with effect from April 1, 2023, a related party transaction to which the subsidiary of a listed entity is a party but the listed entity is not a party, shall require prior approval of the audit committee of the listed entity if the value of such transaction whether entered into individually or taken together with previous transactions during a financial year, exceeds ten per cent of the annual standalone turnover, as per the last audited financial statements of the subsidiary].

- c) Prior approval of the audit committee of the listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of these regulations are applicable to such listed subsidiary.

Explanation: For related party transactions of unlisted subsidiaries of a listed subsidiary as referred to in (c) above, the prior approval of the audit committee of the listed subsidiary shall suffice.

[Regulation 23(2) of SEBI (LODR) Regulations, 2015]

B. Exemptions from Audit Committee’s Approval:

RPTs executed at arm’s length and/or in the ordinary course of business between Holding Company & its wholly owned subsidiary.

[4th proviso to the Section 177(4)(iv) to the Companies Act, 2013]

The following RPTs are exempted from the requirement of Audit Committee approval:

- a) Transaction between two Government companies (Government company(ies) mean Government Company as defined in Section 2(45) of Companies Act, 2013).
- b) Transactions entered into between holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

- c) Transaction entered into between two wholly owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

[Regulation 23(5) of SEBI (LODR) Regulations, 2015]

Important aspects:

- a) The Companies Act, 2013 mentions approval, whereas, under SEBI, it is 'prior approval'. Even though the wording under the statute is approval, it is understood to be 'prior approval', considering ratification provisions. The Companies Act permits ratification of RPTs (approval subsequent to execution of transactions) by the Audit Committee only in the instances wherein the transactions do not exceed Re.1 Crore. Even in these cases, within 3 months of execution, it requires approval.
- b) The Companies Act, 2013 stipulates approval of the Board or Shareholders (when exceeding a pre-defined threshold) only when the transactions are not carried out at arm's length or not in the ordinary course of business. In other cases, approval is with Audit Committee, except to a transaction carried out at arm's length and/or in the ordinary course of business between holding and wholly owned subsidiary, which do not require approval.

To emphasize, the Companies Act stipulates approval by Audit Committee in case of RPTs entered into at arm's length and/or in the ordinary course of business, whereas, approval of Board or shareholders, when not carried out at arm's length or not in the ordinary course of business.

- c) The reference to the term, 'material RPT' is under SEBI Regulations only.
- d) The reference to the term, 'material modification' is under SEBI Regulations only.
- e) The SEBI Regulations stipulates approval by Audit Committee in case of RPTs and approval by Shareholders in case of Material RPTs.
- f) RPTs that are recurring in nature requires approval under omnibus provisions of SEBI Regulations. Further, considering that there could be RPTs, which cannot be anticipated in advance, SEBI Regulations permit a blanket approval with checks, balances and reviews, which too fall under 'omnibus approval', covered in para 'C' below. Similar provisions are in vogue in Companies Act, 2013 too [Rule 6A of The Companies (Meeting of Board and its Powers) Rules, 2014].

C. Approval of Audit Committee under Omnibus provisions:

- a) Audit Committee may grant omnibus approval for Related Party Transactions proposed to be entered by the listed entity, subject to the following conditions:
 - i) The Audit Committee shall lay down the criteria for granting omnibus approval in line with the RPT policy and such approval shall be applicable in respect of transactions which are repetitive in nature.

- ii) Audit Committee shall satisfy itself regarding the need for such approval and that such approval shall be in the interest of the company.
- iii) Such Omnibus approval shall specify the following:
 - ✓ Name(s) of the related party
 - ✓ Nature of transaction
 - ✓ Period of transaction
 - ✓ Maximum amount of transaction that can be entered into
 - ✓ indicative base price / current contracted price and the formula for variation in the price, if any and
 - ✓ Such other conditions as the Audit Committee may deem fit.
- iv) Where the need for RPT cannot be foreseen and aforesaid details are not available, audit committee may grant approval for such transactions subject to their value not exceeding rupees one crore per transaction.
- v) Audit Committee shall review, at least on a quarterly basis, the details of RPTs entered into by the company pursuant to each of the omnibus approval given.
- vi) Further, such approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

[Regulation 23(3) of SEBI (LODR) Regulations, 2015]

- b) RPTs shall require approval of the Audit Committee and the Audit Committee may give omnibus approval for RPTs proposed to be entered into by the Company subject to the following conditions, namely:
 - i) The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely:
 - ✓ maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
 - ✓ maximum value per transaction which can be allowed;
 - ✓ extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
 - ✓ review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made;
 - ✓ Transactions which cannot be subject to the omnibus approval by the Audit Committee.
 - ii) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the company
 - iii) Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely:

- ✓ repetitiveness of the transactions (in past or in future);
 - ✓ justification for the need of omnibus approval.
- iv) Audit Committee shall satisfy itself on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of the company.
- v) The omnibus approval shall contain or indicate the following:
- ✓ name of the related parties
 - ✓ nature and duration of the transaction
 - ✓ maximum amount of a transaction that can be entered into
 - ✓ the indicative base price or current contracted price and the formula for variation in the price, if any and
 - ✓ any other information relevant or important for the Audit Committee to take a decision on the proposed transaction

Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may make omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

- vi) Omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

[Rule 6A of The Companies (Meeting of Board and its Powers) Rules,2014]

Important aspects:

- a) There are similar provisions, both under the Statute and the Regulation that govern omnibus approval.
- b) The nature of transactions envisaged under this provision are those which are repetitive and that could be anticipated. However, in case, it could not be anticipated, under the omnibus approval, up to Re.1 Crore, transactions could be executed. [Transaction includes a group of transactions under a single contract] The approval under omnibus mechanism expires by the end of the financial year.
- c) At the periodicity of a quarter, the transactions executed shall be put up to the Audit Committee for its review.
- d) The following information shall be presented to the Audit Committee for their review and approval, as applicable
- i. Nature / Type, material terms and particulars of the proposed transaction
 - ii. Name of the Related Party and its relationship with listed entity or its subsidiary along with nature of concern / interest (Financial or Otherwise)
 - iii. Tenure / duration of the proposed transaction (particular tenure shall be specified)

- iv. Maximum amount of transaction that can be entered into
 - v. Value of the proposed transaction
 - vi. The indicative base price / current contracted price and the formula for variation in the price if any. Other commercial terms, both included as part of contract and not considered as part of the contract
 - vii. % of listed entity's annual consolidated turnover, for the immediately preceding FY, that is represented by the value of the proposed transaction (if subsidiary is a RPT to a transaction, such % calculated on the basis of Subsidiary's annual turnover on a standalone basis shall be additionally provided)
 - viii. Wherever the RPT relate to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary, following details shall be submitted while seeking approval.
 - ✓ details of the source of funds in connection with the proposed transaction;
 - ✓ 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;
 - ✓ applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security; and
 - ✓ The purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT.
 - ix. Justification as to why the RPT is in the interest of the listed entity
 - x. A copy of the valuation or other external party report, if any such report has been relied upon.
 - xi. % of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis.
 - xii. Any other information that is relevant or important for the Audit Committee to take decision on the proposed transaction.
- e) The statute requires fixation of a threshold by Audit Committee (after approval of it by the Board of Directors) up to which a) each of the Individual transactions can be entered into and b) the aggregate of transactions could be entered into under the omnibus route.
- f) Companies Act, 2013 as well as SEBI Regulations have independent provisions governing scrutiny and approval inter-corporate loans and investments, which are in addition to provisions governing RPTs and thus scoped out in the RPT policy.

D. Additional Review by Audit Committee:

Audit Committee shall additionally review the status of long term (more than one year) or recurring RPTs on an annual basis. [SEBI Circular : SEBI/HO/CFD/CMD1/CIR/P/2021/662 Dated 22.11.2021]

E. Approval of Board / Shareholders:

a) All Related Party Transactions which are either not on arm's length basis or not in the Ordinary Course of Business shall be approved by the Board of Directors. In case the said transaction is beyond the prescribed threshold, the Board of Directors shall further recommend the same for the prior approval of the Shareholders by way of Resolution of the Company. **[Section 188 of Companies Act,2013]**

b) All Material Related Party Transactions and subsequent material modifications shall require prior approval of 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.

Provided that prior approval of the shareholders of a Listed entity shall not be required for a related party transaction to which the listed subsidiary is a party but the listed entity is not a party, if regulation 23 and sub-regulation (2) of regulation 15 of these regulations are applicable to such listed subsidiary.

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

[Regulation 23 of SEBI (LODR),2015]

c) By virtue of a provision under SEBI Regulations, which requires the approval of Audit Committee to RPTs, the transactions contemplated U/s 188 of the Act, that would require the approval of Board/Shareholders would first be put up to the Audit Committee for their review and recommendation.

d) Further, in accordance with Section 184 of the Companies Act, 2013 and all other applicable provisions, every director of a company who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement or proposed contract or arrangement entered into or to be entered into, shall disclose the nature of his concern or interest at the meeting of the Board in which the contract or arrangement is discussed and shall not participate in such meeting.

F. Exemption from Shareholders' approval:

The following transactions are exempted from the requirement of obtaining the Shareholders' approval;

a) Transaction between two government companies (as defined in Section 2(45) of Companies Act, 2013.

- b) Transactions entered into between holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- c) Transaction entered into between two wholly owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

[Regulation 23(5) of SEBI (LODR), 2015]

Note: While the exemption from approval is under SEBI as stated above, in the event of these transactions falling under the nature of those not on arm's length basis or not executed in the ordinary course of business, under Companies Act, these would require the approval of shareholders as long as the values would exceed the prescribed limits.

Important aspects:

- a) The following information shall be presented to the Board for their review and approval, as applicable.
 - i. The name of the related party and nature of relationship.
 - ii. The nature, duration of the contract and particulars of the contract or arrangement.
 - iii. The material terms of the contract or arrangements including the value, if any.
 - iv. Any advance paid or received for the contract or arrangement, if any.
 - v. The manner of determining the pricing and other commercial terms, both included as a part of the contract and not considered as a part of the contract
 - vi. Whether all factors relevant to the contract have been considered, if not, the details of the factors not considered with the rationale for not considering those factors and
 - vii. Any other information relevant or important for the Board to take a decision on the proposed transaction.
- b) The prescribed information, to the extent relevant, shall be included in the explanatory statement of the notice to be sent to the shareholders for general meeting convened in accordance with section 101 of the Companies Act, 2013. SEBI Regulations/Companies Act, 2013 both have defined the information to be so included and is broadly in tandem with information to be submitted to Audit Committee as mentioned in important aspects of Point 'C' of this part.

G. Ratification by Audit Committee:

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 the 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 authorized by any other director, the director concerned shall indemnify the company against any loss incurred by it.

[Section 177 of Companies Act, 2013]

H. Ratification by Board/Shareholders:

- a) Where any contract or arrangement, is entered into by a director or any other employee, without obtaining the consent of the Board or the approval by a resolution in the general meeting of the Company, as the case may be, such transaction shall be 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.
- b) In case such transaction is not ratified within the specified period, such contract or arrangement shall be voidable at the option of the Board/Shareholders and if the contract or arrangement is with a related party to any director, or is authorized by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

[Section 188 of Companies Act, 2013]

Important aspects:

- a) The Company being a legal person, enters into contract/arrangement through its directors/employees. The ratification by the Audit Committee is the context of those RPTs, wherever prior approval is not taken and which are at arm's length or in the ordinary course of business. The ratification by Board/Shareholders are in other cases.
- b) By design, the statutory/regulatory requirement of an RPT is prior approval. The approval under omnibus provision enables companies to execute a RPT not exceeding Re.1 Crore per transaction (A transaction includes group of transactions under a single contract).

PART E: POLICY

1. This policy is called “Policy on Materiality of Related Party Transactions and on dealing with Related Party Transactions”. This policy is designed duly considering the provisions governing Related Party and Related Party Transactions under Companies Act, 2013, SEBI Regulations and Ind-AS.
2. Related Party Transaction covers HPCL on the one part and Related Parties on other. Further, by virtue of amendment under SEBI Regulations coming into effect from 01/04/2022, it includes even those transaction wherein HPCL’s subsidiary Companies are one of the parties to the Transaction (when HPCL is not a party to it).
3. Related party contracts / arrangements entered into on arm’s length basis &/or in the ordinary course of business:
 - a) These transactions shall require prior approval of Audit Committee of HPCL. However, wherever transactions are carried out at arm’s length and/or in the ordinary course of business between Holding Company & its wholly owned subsidiary, no approval will be required.
 - b) Pursuant to SEBI (LODR),2015, in case of HPCL’s subsidiary is one of the Party (& HPCL is not a Party), the approval of HPCL’s Audit Committee shall be taken, wherever the value of such transaction, whether entered into individually or taken together with previous transactions during a financial year exceeds ten percent of the annual consolidated turnover, as per the last audited financial statement of HPCL. Further, effective 01.04.2023, such turnover shall be as per the last audited financial statement of the subsidiary). However, wherever transactions are carried out at arm’s length and/or in the ordinary course of business, such approval shall not be required in following cases:
 - ✓ The transaction is between two Government companies. (between 2 subsidiaries of HPCL, or say HPCL’s subsidiary on the one part and other Related Party, which is a Government Company, such as ONGC).
 - ✓ Transaction is between holding company (HPCL) and its wholly owned subsidiary whose accounts are consolidated with holding company and placed before the shareholders at the general meeting for approval.
 - ✓ Transaction between two wholly-owned subsidiaries of the listed holding company (HPCL), whose accounts are consolidated with such holding company and placed before shareholders at the general meeting for approval.

- c) With respect to approval under omnibus provisions under the Statute/Regulation, considering the type of RPT, repetitive nature and the experience factor, the Board has approved a threshold of Rs.2,00,000 Crore in aggregate for each financial year, which includes Material RPTs as defined under SEBI Regulations. With respect to maximum value per transaction, the approval is for Rs.2500 Crore per transaction {Transaction here, does not mean group of transactions under a single contract}. The taxes are extra.
- d) These RPTs (carried out at arm's length and/or in the ordinary course of business), wherever defined to be 'Material RPTs', shall be with prior approval of Shareholders.

[Wherever 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 percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity whichever is lower, these are defined to be Material RPTs, effective 01/04/2022. Prior to this, the threshold of Rupees one thousand Crore is not applicable.

Notwithstanding the above, a transaction involving payments made to a related party with respect to brand usage or royalty is considered material, if the transaction(s) to be entered into 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].

The Board of Directors have adopted the materiality limit as fixed under SEBI Regulation stated above as Material Related Party Transactions.

- 4. Related Party Transactions not carried out at arm's length and/or in the ordinary course of business (i.e. other than those mentioned in '3' above):
 - a) These transactions, if undertaken, shall be subject to the approval of both the Audit Committee and of the Board, under the provisions of SEBI Regulations/Companies Act, respectively.
 - b) Over and above, the approval of shareholders through a resolution shall also be taken, wherever the value of transactions exceeds the prescribed limits provided under Companies Act, 2013 and SEBI (LODR) Regulations, 2015 as the case may be. Considering the requirements, both under the Statute/Regulation, the only exception to this approval is in case of RPTs entered into between Holding Company and the wholly owned Subsidiary Company whose accounts are consolidated with holding company and placed before the shareholders at the general meeting for approval.
 - c) Pursuant to SEBI (LODR),2015, in case HPCL's subsidiary is one of the Party (& HPCL is not a Party), the approval of HPCL's Audit Committee shall be taken, wherever the value of such transaction, whether entered into individually or taken together with previous

transactions during a financial year exceeds ten percent of the annual consolidated turnover, as per the last audited financial statement of HPCL. Further, effective 01.04.2023, such turnover shall be as per the last audited financial statement of the subsidiary). However, such approval shall not be required in following cases:

- ✓ The transaction is between two Government companies. (between 2 subsidiaries of HPCL, or say HPCL's subsidiary on the one part and other Related Party, which is a Government Company, such as ONGC).
- ✓ Transaction is between holding company (HPCL) and its wholly owned subsidiary whose accounts are consolidated with holding company and placed before the shareholders at the general meeting for approval.
- ✓ Transaction between two wholly-owned subsidiaries of the listed holding company (HPCL), whose accounts are consolidated with such holding company and placed before shareholders at the general meeting for approval.

5. Pursuant to the requirement under SEBI (LODR),v2015, a modification is treated as 'Material Modification', if and only if:

- a) Those modifications in the Related Party Contracts/Arrangements which will have the impact of increasing the value of initially approved transaction limits (in aggregate for each Related Party) by 25% or more; **or**
- b) Those modifications in the Related Party Contracts/Arrangements which could violate the principle of arm's length **and** when executed, would exceed the initial approved limits (in aggregate for each related party)

6. Any modifications to the RPTs shall be subjected to review and approval of Audit Committee. Further,

- a) Wherever, the transaction is at arm's length and/or in the ordinary course of business and initial approval of which is taken from Audit Committee, the prior approval of Board (or Shareholders when exceeding the predefined threshold) shall be taken wherever there arise modifications pursuant to 5.b.
- b) Wherever, the transaction is at arm's length and/or in the ordinary course of business and initial approval of which is taken from Shareholders, the prior approval of shareholders shall once again be taken wherever there arise modifications pursuant to 5.a. or 5.b. as the case may be.

- c) Wherever, the transaction is not at arm's length and/or not in the ordinary course of business and initial approval of which is taken from Board or Shareholders as the case may be, any modification shall once again require prior approval of Board shareholders as the case may be.
7. Every Contract or arrangement entered with Related Parties with the approval of Board / Shareholders in line with sub-section (1) of Section 188 of the Companies Act 2013, are referred to in the Board's Report of the relevant Financial Year to the shareholders along with the justification for entering into such contract or arrangements. Further, details of Material Related Party Transactions of the policy are disclosed quarterly along with the compliance report on corporate governance are filed with Stock Exchanges. The RPT policy is hosted on company's website and a web link thereto is provided in the Annual Report.
8. The Audit Committee shall review the RPTs that are executed by the company on a quarterly basis. Additionally, the status of long term (more than one year) or recurring RPTs shall be reviewed on an annual basis.
9. In the event of inadvertent omission to seek the approval of the Related Party Transaction in accordance with the Policy, such transactions are put up to the review of the Audit Committee.
10. Any subsequent notification, circular, guidelines or amendments under Companies Act, 2013/SEBI Regulations, Accounting Standards and all other applicable laws, as may be issued from time to time shall be mutatis mutandis applicable, even without any further modification or amendment in this policy. Irrespective of this position, the Board shall review and update the policy at an interval, not later than 3 years from the previous revision.
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