



SMS PHARMACEUTICALS LIMITED

POLICY ON RELATED PARTY TRANSACTIONS

1. PREAMBLE

- 1.1. Related party transactions can present a potential or actual conflict of interest which may be against the best interest of the company and its shareholders. Considering the requirements for approval of related party transactions as prescribed under the Companies Act, 2013 ("Act") read with the Regulation 23 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), every listed entity shall formulate a policy on dealing with related party transactions and determining materiality of related party transactions.
- 1.2. In line with the legislative intent, SMS Pharmaceuticals Limited ("SMS Pharma" or "the Company") has framed this Policy on Related Party Transactions and dealing with related party transactions including clear threshold limits.
- 1.3. In case of any inconsistency in the Policy and the Act / Listing Regulations, as may be amended from time to time, the provisions of the Act / Listing Regulations would prevail.

2. OBJECTIVE

- 2.1. The objective of this Policy is to set out (a) the materiality thresholds for related party transactions and; (b) the manner of dealing with the transactions between the Company and its related parties based on the Act, Regulation 23 of the Listing Regulations and any other laws and regulations as may be applicable to the Company.

3. DEFINITIONS

- 3.1. **"Act"** means the Companies Act, 2013 and rules made thereunder.
- 3.2. **"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 as defined in explanation to Section 188 (1) of the Companies Act, 2013.
- 3.3. **"Associate company"** shall mean any entity which is an associate under sub-section (6) of section 2 of the Companies Act, 2013 or under the applicable accounting standards. i.e. "associate company", in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation—for the purposes of this clause, "significant influence" means

- (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;



(b) the expression “joint venture” means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;

3.4. **“Company”** shall mean SMS Pharmaceuticals Limited.

3.5. **“Holding Company”** means a holding company as defined in sub-section (46) of section 2 of the Companies Act, 2013;

3.6. **“Key Managerial Personnel”** have the same meaning as given in Section 2(51) of the Companies Act, KMP in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer;
- (v) 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
- (vi) such other officer as may be prescribed;

3.7. **“Manager”** have the same meaning as given in Section 2(53) of the Companies Act, “Manager” means 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 a 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;

3.8. **“Net Worth”** means net worth as defined in sub-section (57) of section 2 of the Companies Act, 2013; i.e. the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, , after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation

3.9. **“Office or place of profit”** means any office or place as defined in explanation of Section 188 (1) —

- (i) where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
- (ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

3.10. **“Ordinary Course of Business”** includes but not limited to a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions. In law, the ordinary course of business covers the usual transactions, customs and practices of a certain business and of a certain firm. Indicative factors for determining term ordinary course of business:

- (i) is normal or otherwise remarkable for your particular business (i.e. features in your system, processes, advertising, staff training, etc.)
- (ii) is frequent and regular
- (iii) involves significant amounts of money
- (iv) is a source of income for your business



- (v) involves significant allocation of resources
- (vi) is involved in a service or product that is offered to customers

3.11. **“Policy”** means this policy on dealing with related party transactions and determining materiality of related party transactions.

3.12. **“Relatives”** means relative as defined under Section 2(77) of the Companies Act, 2013 read with Rule 4 of the Companies (Specification of Definitions Details) Rules, 2014 as under:

- (i) Members of a Hindu Undivided Family;
- (ii) They are husband and wife; or
- (iii) Father includes step-father
- (iv) Mother includes the step-mother
- (v) Son includes the step-son
- (vi) Son's wife
- (vii) Daughter
- (viii) Daughter's husband
- (ix) Brother includes the step-brother
- (x) Sister includes the step-sister

3.13. **“Related Party”** with reference to a Company, shall have the meaning as defined in Section 2(76) of the Act and Regulation 2(1)(zb) of the Listing Regulations.

3.14. **“Related Party Transaction”(RPT)**

- for the purpose of the Act, specified transaction of the Company with Related Parties mentioned in clause (a) to (g) of sub-section 1 of Section 188 and clause (iv) of sub-section 4 of Section 177 of the Act; and
- for the purpose of Regulation 2(1)(zc) of the Listing Regulations, a transfer of resources, services or obligations between:
 - a. the Company or any of its subsidiaries on one hand and a related party of Company or any of its subsidiaries on the other hand;
 - b. the Company 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 Company or any of its subsidiaries with effect from April 1, 2023

regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract.

Provided that this definition shall not be applicable for the units issued by Mutual Funds which are listed on Recognized Stock Exchanges.

Following shall not be considered Related Party Transaction of the Company in terms of SEBI Listing Regulations:

- (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) payment of dividend by the Company
- (c) subdivision or consolidation of securities by the Company
- (d) issuance of securities by way of a rights issue or a bonus issue and
- (e) buy-back of securities.



3.15. **“Regulation”** shall mean Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

3.16. **“Subsidiary Company or Subsidiary”** means a company as defined in sub-section (87) of section 2 of the Companies Act, 2013; i.e. “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 anybody corporate;
- d. “layer” in relation to a holding company means its subsidiary or subsidiaries;

3.17. **“Material Subsidiary”** shall mean a subsidiary as defined in Reg. 16(1)(c) of the Regulation, whose income or net worth exceeds 10 [ten] percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

Any other term not defined herein shall have the same meaning as defined in the Act, the Listing Regulations, Securities Contract Regulation Act or any other applicable law or regulation.

4. Identification of Related Party

Each Director and Key Managerial Personnel is responsible for providing notice to the Board/Audit Committee of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. The Board/Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy. The Director and Key Managerial Personnel shall send notice of any potential Related Party Transaction.

Audit Committee may determine the procedure to be followed for declaration as well as compilation and circulation of the comprehensive List of Related Parties.

5. Identification of Potential Related Party Transactions

Each director and Key Managerial Personnel is responsible for providing notice to the Board or Audit Committee of any potential Related Party Transaction involving him or her or his or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. Board/Audit Committee will



determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy.

6. MATERIALITY THRESHOLDS FOR RELATED PARTY TRANSACTIONS UNDER THE ACT

In accordance with Regulation 23 of Listing Regulations, the Company has formulated this 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.

A transaction with a related party shall be considered material if the transactions to be entered individually or taken together with previous transactions **during a financial year, exceeds Rs. 1,000 crore or 10% of the annual consolidated turnover** of the listed entity as per the last audited financial statements of the listed entity, whichever is lower ("Material Related Party Transaction").

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 5% of the annual consolidated turnover** of the Company as per the last audited financial statements.

7. CRITERIA FOR APPROVAL OF A RELATED PARTY TRANSACTION

All related party transactions must be reported to the Audit Committee for its prior approval in accordance with this policy. The Committee shall review the transaction and report the same for approval of the Board and shareholders, if required, in accordance with this policy.

7.1. APPROVAL FROM AUDIT COMMITTEE

All Related Party Transactions, any modifications to transactions with Related Parties as per the provisions of the Act, and subsequent material modifications to transactions with Related Parties as defined under Listing Regulations shall require prior approval of the Audit Committee, whether at a meeting or by circular.

All Related Party Transactions to which subsidiary of the Company is a party to but Company is not a party, the value of which exceeds the thresholds as prescribed under Regulation 23 of the Listing Regulations shall require prior approval of the Audit Committee.

Above prior approval of the Audit Committee shall not be required in cases where the subsidiary is a listed entity and Regulations 23 and 15(2) of the Listing Regulations are applicable to such listed subsidiary.

Any member of the Audit Committee who has a potential interest in any Related Party Transaction will abstain from discussion and voting on the approval of the Related Party Transaction.

In case of a transaction, other than transactions referred to in Section 188 of the Act, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

7.2. Omnibus approval of the Audit Committee

- a. The Audit Committee may grant omnibus approval for the proposed Related Party Transaction subject to the following conditions:



- i. The Audit Committee shall lay down the criteria for granting omnibus approval in line with the policy on Related Party Transactions of the Company and such approval shall be applicable in respect of transactions which are repetitive in nature;
- ii. The Audit Committee shall satisfy itself the need for such omnibus approval and that such approval is in the interest of the Company;
- iii. Such omnibus approval shall specify the following:
 - ◆ Name(s) of the Related Party;
 - ◆ Nature of the transaction;
 - ◆ Period of transaction;
 - ◆ Maximum amount of transaction that can be entered into;
 - ◆ The 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.
- b. In such cases where the need for Related Party Transaction cannot be foreseen and details as required above are not available, the Audit Committee may grant omnibus approval for such transactions subject to their value not exceeding INR 1 crore per transaction;
- c. The Audit committee shall review, at least on a quarterly basis, the details of Related party transactions entered into by the Company pursuant to each of the omnibus approval given;
- d. Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.
- e. The criteria for granting Omnibus Approval shall include the following:
 - The maximum value of the transactions, in aggregate, which can be allowed under omnibus route in a year will be 30% of the annual consolidated turnover of the company as per its last audited financial statements and maximum value per transaction which can be approved under omnibus route will be the same as per the materiality threshold as defined in Clause 7 of the Policy.
 - The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely:-
 - i. repetitiveness of the transactions (in past or in or in future);
 - ii. justification for the need of omnibus approval

The requirement for seeking Audit Committee approval for related party transactions shall not be applicable to transactions between:

- i. The Company and its wholly owned subsidiary/ies; or
- ii. two wholly-owned subsidiaries of the Company, whose accounts are consolidated with the Company.



Transaction of following nature will not be subject to the omnibus approval of the Audit Committee:

- 1) Transactions which are not at arm's length or not in the ordinary course of business;
- 2) Transactions which are not repetitive in nature;
- 3) Transactions exceeding materiality thresholds as laid down in Clause 5 of the Policy;
- 4) Transactions in respect of selling or disposing of the undertaking of the Company;
- 5) Financial Transactions eg. Loan to related parties, Inter Corporate Deposits, subscriptions to bond, debenture or preference shares issued by the related parties, corporate guarantee given/received from related parties
- 6) Any other transaction the Audit Committee may deem not fit for omnibus approval

The Audit Committee will be provided with all relevant material information of Related Party Transactions, including the terms of the transaction, the business purpose of the transaction, the benefits to the Company and to the Related Party, and any other relevant matters.

The Independent Directors who are members of the Audit Committee may accordingly approve or modify such transactions, in accordance with this Policy and/ or recommend the same to the Board for approval.

The Independent Directors shall ensure that adequate deliberations are held before approving Related Party Transactions which are not in the Ordinary Course of Business or not on Arm's Length or Material Specific Transactions and assure themselves that the same are in the interest of the Company and its Shareholders

7.3. APPROVAL FROM BOARD OF DIRECTORS

As per the provisions of Section 188 of the Act, all kinds of transactions specified under the said Section and which are not in the ordinary course of business or at arm's length basis, shall be placed before the Board for its approval. Such approval shall be granted only by means of a Resolution passed at a Meeting of the Board. The Company may if it considers necessary, and shall if the Audit Committee or Board so requires, seek external professional opinion to determine whether a Related Party Transaction is in the Ordinary Course of Business and/or at Arms' Length.

In addition to the above, the following kinds of transactions with related parties shall also be placed before the Board for its approval:

- Transactions which may be in the ordinary course of business and at arm's length basis, but which are as per the policy determined by the Board from time to time (i.e. value threshold and/or other parameters) require Board approval in addition to Audit Committee approval;
- Transactions in respect of which the Audit Committee is unable to determine whether or not they are in the ordinary course of business and/or at arm's length basis and decides to refer the same to the Board for approval;



- Transactions which are in the ordinary course of business and at arm's length basis, but which in Audit Committee's view requires Board approval.
- Transactions exceeding the materiality thresholds laid down Clause 5 of the Policy and any subsequent Material Modification to a Material Related Party Transaction, which are intended to be placed before the shareholders for approval.

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.

The Agenda of the Board Meeting at which the Resolution is proposed to be moved for approval of the Related Party Transaction shall disclose the following details:

- i. The name of the Related Party and the nature of relationship;
- ii. The nature, duration and particulars of the contract or arrangement;
- iii. The material terms of the contract or arrangement, 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 part of contract and not considered as part of contract;
- vi. whether all factors relevant to the contract have been considered; if not, the details of 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.

While assessing a proposal put up before the Audit Committee / Board for approval, the Audit Committee / Board may review the following documents / seek the following information from the management in order to determine if the transaction is in the ordinary course of business and at arm's length or not:

- Nature of the transaction i.e. details of goods or property to be acquired / transferred or services to be rendered / availed – including description of functions to be performed, risks to be assumed and assets to be employed under the proposed transaction;
- Key terms (such as price and other commercial compensation contemplated under the arrangement) of the proposed transaction, including value and quantum;
- Key covenants (non-commercial) as per the draft of the proposed agreement/ contract to be entered into for such transaction;
- Special terms covered / to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;
- Benchmarking information that may have a bearing on the arm's length basis analysis, such as:
 - Key covenants (non-commercial) as per the draft of the proposed agreement/ contract to be entered into for such transaction;
 - Special terms covered / to be covered in separate letters or undertakings or any other special or sub arrangement forming part of a composite transaction;
 - Benchmarking information that may have a bearing on the arm's length basis analysis, such as:



7.4. APPROVAL FROM SHAREHOLDERS

All Material Related Party Transactions under the Listing Regulations and subsequent Material Modifications thereto shall require prior approval of the Shareholders through a resolution.

For this purpose, no entity falling under the definition of related parties under Listing Regulations shall vote to approve the relevant transaction irrespective of whether the entity is a party to the particular transaction or not.

However, the requirements specified in this sub-clause shall not apply in respect of a resolution plan approved under section 31 of the Insolvency Code, subject to the event being disclosed to the recognized Stock Exchanges within one day of the resolution plan being approved

Transactions with Related Parties, other than Material Related Party Transactions as per the Listing Regulations, which are either not in the Ordinary Course of Business or are not on an Arm's Length Basis and exceeds the thresholds provided under the Act and Companies (Meetings of Board and its Powers) Rules, 2014, shall also require the prior approval of the Shareholders by a Resolution and all Related Parties shall abstain from voting on such Resolution. Material Modifications to the said Related Party Transactions shall also require prior approval of the Shareholders.

Above prior approval of the Shareholders shall not be required in cases where the subsidiary is a listed entity and Regulations 23 and 15(2) of the Listing Regulations are applicable to such listed subsidiary.

The requirement for seeking Shareholders approval shall not be applicable to transactions between:

- i. the Company and its wholly-owned subsidiary(ies); or
- ii. two wholly-owned subsidiaries of the Company
whose accounts are consolidated with the Company.

SMS Pharma shall disclose, in the Board's report, transactions prescribed in Section 188(1) of the Act with related parties, which are not in ordinary course of business or arm's length basis along with the justification for entering into such transaction.

In addition to the above, SMS Pharma shall also provide details of all related party transactions exceeding the materiality threshold (laid down in Clause 6 of the Policy above) on a quarterly basis to the stock exchanges.

Further, the Company shall submit to the stock exchanges, on a half-yearly basis, within the timelines as prescribed by SEBI from time to time, the disclosures relating to Related Party Transactions in the format as specified by SEBI from time to time and publish the same on the website of the Company.

This policy shall also be uploaded on the website of the Company at www.smspharma.com and a web link thereto shall be provided in the Annual Report of the Company.



7.5. TRANSACTION NOT REQUIRING APPROVAL OF BOARD OR SHAREHOLDERS

In the event the Company becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the related party transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such related party transaction to the Audit Committee under this Policy and failure of the internal control systems and shall take any such action it deems appropriate.

In any case, where the Audit Committee determines not to ratify a related party transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy.

8. DISCLOSURES

Compliance of this Policy shall be the responsibility of the Head - Group Finance Office of the Company who shall have the power to ask for any information or clarifications from the management in this regard.

9. AMENDMENT OF THE POLICY

This Policy shall be reviewed by the Board of Directors atleast once every three years and updated accordingly based on the recommendations of the Audit Committee.

This policy (as amended from time to time) shall be deemed to have come into force with effect from 01st Day of April, 2022.