

Policy on Related Party Transactions

1. Scope and Purpose

The Companies Act, 2013 (the “Act”) and the rules framed thereunder as well as the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”) contain detailed provisions relating to Related Party Transactions.

This Policy on Related Party Transactions (this “Policy”) has been framed as per the requirements of the Regulation 23 of Listing Regulations and is intended to ensure proper approval and reporting of the concerned transactions by the Corporation and its subsidiaries with their related parties, as required under the Listing Regulations.

Pursuant to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 dated November 9, 2021, this Policy has been amended and approved by the Board of Directors of the Corporation, based on the recommendation of the Audit and Governance Committee, at its meeting held on March 22, 2022. It is hereby clarified that the amendments introduced in the Listing Regulations that would come into force with effect from April 1, 2023 would be incorporated in this Policy as and when they become applicable.

2. Applicability

In accordance with the Listing Regulations, this Policy shall govern the Related Party Transactions by the Corporation and the subsidiaries of the Corporation to the extent applicable to them.

This Policy shall be effective from April 1, 2022.

3. Interpretation

All words and expressions used herein, unless defined herein, shall have the same meaning as assigned to them in the Applicable Law under reference.

“Applicable Law” includes (a) the Act and rules made thereunder as amended from time to time; (b) the Listing Regulations, as amended from time to time; (c) Indian Accounting Standards; and (d) any other statute, law, standards, regulations or other governmental circulars, notifications or instructions (including circulars, notifications and guidance issued by the Securities and Exchange Board of India from time to time) relating to Related Party Transactions as may be applicable to the Corporation.

“Material Modifications” shall mean a 10% or more increase in the original value/consideration of any Related Party Transaction which was approved by the Audit and Governance Committee/ Shareholders of the Corporation, as the case may be.

4. Approval Matrix

All prospective Related Party Transactions will be subject to following approval matrix, as may be applicable:

Particulars of transactions	Approving Authority		
	Audit and Governance Committee	Board of Directors	Shareholders
Related Party Transactions wherein the Corporation is a Party	All	Material Related Party Transactions i.e. Aggregate value per related party > ₹ 1,000 crore	
Related Party Transactions wherein the Subsidiary is a Party and the Corporation is not a Party	Aggregate value per related party > ₹ 1,000 crore		

Notes:

- (a) The above approval matrix is subject to any applicable exceptions stipulated under the Listing Regulations, the Act and/or other Applicable Law.
- (b) The turnover or net worth (as applicable) of the Corporation is to be calculated as per the last audited financial statements of the Corporation. The limit of 10% of annual consolidated turnover of the Corporation specified in the Listing Regulations is higher than the limit of ₹ 1,000 crore and hence the limit of ‘10% of annual consolidated turnover’ has not been considered in the above-mentioned approval matrix. The term “Aggregate value” in the above-mentioned approval matrix would mean the value of transaction per related party to be entered into either individually or taken together with the previous transactions during a financial year.
- (c) In case of shareholders’ resolution to approve a material Related Party Transaction and any Material Modifications thereof, no Related Party shall vote to approve such resolution whether or not the entity is a related party to the particular transaction, unless permitted under Applicable Law.

- (d) Any transaction with related parties under Section 188 of the Act (i.e., which is not on an arm's length or not in ordinary course of business), irrespective of the specified materiality threshold, will require an approval from the Board of Directors of the Corporation. Such transactions that are above the threshold specified in the relevant rules framed under Section 188 of the Act, will also require an approval of the Shareholders of the Corporation by way of an ordinary resolution.
- (e) Material Modifications to Related Party Transactions will require prior approval of the Audit and Governance Committee. Material Modifications to material Related Party Transactions will require prior approval of the Shareholders of the Corporation. Further, any other modifications to transactions entered into by the Corporation with its related parties will require the approval of the Audit and Governance Committee notwithstanding that such modification is a Material Modification.
- (f) In case an approval of the Audit and Governance Committee of the Corporation is required for a Related Party Transaction to which the subsidiary of the Corporation is a party and the Corporation is not, then prior approval of the audit committee/board of directors of the respective subsidiary has to be taken before recommending such transaction for the approval of the Audit and Governance Committee of the Corporation.

5. Process for identification of Related Parties

- (a) The Corporation shall identify and keep on record its related parties as per Applicable Law.
- (b) The Corporation shall obtain, on a quarterly basis, disclosure of related parties from its Directors/Key Managerial Personnel. The list of related parties maintained by the Corporation would be based on disclosures received by it from Directors/Key Managerial Personnel and other concerned entities/individuals.
- (c) Each subsidiary company of the Corporation shall furnish an updated list of its related parties to the Corporation on a quarterly basis.
- (d) The Corporation shall update the list of its related parties whenever necessary, which shall be reviewed at least once a quarter.

6. Process for identification of Related Party Transactions

- (a) The list of related parties of the Corporation and the consolidated list of related parties of the subsidiaries shall be furnished, on a quarterly basis, to the concerned departments of the Corporation and to all subsidiary companies.
- (b) The subsidiary companies shall provide to the Corporation on a half-yearly basis information regarding the transactions entered into with any of the related parties of the Corporation or of any of the subsidiary companies for the purpose of disclosure to the stock exchanges.
- (c) The subsidiary companies shall provide to the Corporation, from time to time, information on any proposed material Related Party Transactions and any Material Modifications, for purposes of obtaining necessary approvals from the Corporation.
- (d) No subsidiary company shall enter into any material Related Party Transaction (including any Material Modification), unless the same has been approved by the audit Committee/board of the subsidiary and the Audit and Governance Committee and Shareholders of the Corporation, as required under the Listing Regulations.
- (e) All the Related Party Transactions wherein the Corporation is not a party but a listed subsidiary is a party (irrespective of the other party) is exempted for approval of Audit and Governance Committee and Shareholders of the Corporation if Regulations 15(2) and 23 of the Listing Regulations is applicable to such listed subsidiary. However, the listed subsidiary shall obtain approval of its audit committee in case of any transactions with related parties of the Corporation or of any of its subsidiaries in excess of ₹ 1,000 crore or 10% of the annual consolidated turnover of the Corporation, whichever is lower.

7. Ascertaining whether Related Party Transactions are in the Ordinary Course of Business

- (a) Although the term "Arm's Length Basis" has been defined under Section 188 of the Act, what transactions would be considered to be in the "ordinary course of business" has not been specified under the Act. Based on judicial precedents, the following principles may be relied upon:
 - i. A habit system and continuity is required to satisfy the test of regular or ordinary course of business.
 - ii. Even though furnishing a security may be one of normal business practices, it would become a part of 'ordinary course of business' of a particular corporate entity only if it falls in place as part of 'the undistinguished common flow of business done'; and is not arising out of 'any special or particular situation'.
 - iii. It must be found as to whether the particular act has any connection with the normal business that the company is carrying on and whether it is so related to the business of the company that it can be considered to be performed in the ordinary course of the business of that company.

Therefore, in order to determine whether a transaction is within the ordinary course of business or not, some of the principles that may be adopted to assess are as follows:

- a) Whether the transaction is in line with the usual transactions, customs and practices undertaken by the Corporation to conduct its business operations and activities.
 - b) Whether it is permitted by the Memorandum and Articles of Association of the Corporation.
 - c) Whether the transaction is required to be undertaken in order to conduct the routine or usual transactions of the Corporation.
 - d) Any of the following conditions are met:
 - i. the transaction is in the nature of sale or purchase of goods or property, or acquiring or providing of services, conveying or accepting leases, transfer of any resources, hiring of any executives or other staff, providing or availing of any guarantees or collaterals, or receiving or providing any financial assistance, or issue, transfer or acquisition of any securities; or
 - ii. the transaction is in the nature of reimbursements, received or provided, from or to any related party, whether with or without any mark-up towards overheads, and is considered to be congenial for collective procurement or use of any facilities, resources, assets or services and subsequent allocation of the costs or revenues thereof to such related party in an appropriate manner.
 - e) The transaction is not:
 - i. an exceptional or extra ordinary activity as per applicable accounting standards or financial reporting requirements; or
 - ii. any sale or disposal of any undertaking of the Corporation, as defined in explanation to clause (a) of sub-section (1) of Section 180 of the Act.
- (b) The Corporation may also consider whether the transaction contemplated under the proposed contract or arrangement is either similar to contracts or arrangements which have been undertaken in the past, or in the event that such transaction is being undertaken for the first time, whether the Corporation intends to carry out similar transactions in the future.
 - (c) Further, whether the transaction value is within the reasonable range for similar types of other transactions, will also be an important consideration. An exceptionally large value transaction should invite closer scrutiny.

8. Ascertaining whether Related Party Transactions are on an Arm's Length Basis

- (a) The Corporation has in place a Pricing Policy which stipulates pricing criteria for transactions entered into by it with related parties. The Audit and Governance Committee of the Corporation shall refer to the said Pricing Policy for determining the arm's length pricing for Related Party Transactions entered into/to be entered into by the Corporation. The Pricing Policy shall be updated annually or as may be deemed necessary by the Audit and Governance Committee.
- (b) In case of transactions that are not covered under the Pricing Policy, the Corporation may also apply the most appropriate method from any of the following methods as prescribed under Section 92C(1) of the Income Tax Act, 1961 read with Rule 10B of the Income Tax Rules, 1962 in order to determine the optimum arm's length price –
 - i. Comparable Uncontrolled Price method (CUP method)
 - ii. Resale Price method
 - iii. Cost Plus method
 - iv. Profit Split method
 - v. Transactional Net Margin method
 - vi. Other method as prescribed by the Central Board of Direct Taxes
- (c) The Audit and Governance Committee shall be entitled to rely on professional opinion or representation from the counter party in this regard.
- (d) Notwithstanding the above, whether a particular transaction is on arm's length basis or not, is a decision to be taken by the Audit and Governance Committee of the Corporation. Once the Audit and Governance Committee determines that the relevant transaction has taken place on arm's length basis, so long as it has a reasonable basis for the same, its decision shall be final.

9. Procedure for approval and review of Related Party Transactions

(a) Approval of Audit and Governance Committee:

- i. All Related Party Transactions and Material Modifications thereto require the prior approval of the Audit and Governance Committee in accordance with the approval matrix mentioned in this Policy, provided however, any other modifications to transactions entered into by the Corporation with its related parties will require the approval of the Audit and Governance Committee notwithstanding that such modification is a Material Modification.
- ii. All relevant facts pertaining to a Related Party Transaction, including but not limited to, name of the related party, nature of relationship and value of transaction, shall be placed before the Audit and Governance Committee along with such other details as prescribed under Applicable Law from time to time or otherwise relevant or important for the Audit and Governance Committee to take a decision on the proposed Related Party Transaction.
- iii. Audit and Governance Committee shall be entitled to call for such additional information/documents in order to understand the scope of the proposed Related Party Transaction(s) and recommend an effective control system for the verification of the supporting documents.
- iv. In determining whether approval can be accorded to a Related Party Transaction, the Audit and Governance Committee may consider the following and any other relevant factors as prescribed under Applicable Law from time to time:
 1. whether the Related Party Transaction is in the ordinary course of business of the Corporation;
 2. whether the terms of the Related Party Transaction is on arm's length basis;
 3. whether there are any adequate reasons of business expediency for the Corporation to enter into the Related Party Transaction, after comparing alternatives available, if any;
 4. whether there is any potential reputational/regulatory risks that may arise as a result of or in connection with the proposed Related Party Transaction; and
 5. whether the Related Party Transaction would affect the independence or present an improper conflict of interest for any director or Key Managerial Personnel of the Corporation, taking into account the size of the transaction, the overall financial position of the Related Party, the direct or indirect nature of interest of the Related Party in the transaction and such other factors as the Audit and Governance Committee deems relevant.
- v. If the Audit and Governance Committee determines that a Related Party Transaction should be brought before the Board of Directors, or if the Board in any case chooses to review any such matter or it is mandatory under any Applicable Law or required under this Policy for Board to approve the Related Party Transaction, then the Board shall consider and approve the Related Party Transaction and the considerations set forth above shall apply to the Board's review and approval of the Related Party Transaction, with such modification as may be considered necessary or appropriate by the Board under the circumstances.
- vi. In case a Related Party Transaction or subsequent modification that has been commenced without the required prior approval, the Audit and Governance Committee or Board or the shareholders, as appropriate, may ratify the transaction or modification if permitted under Applicable Law and/or take direct actions including, but not limited to, rendering such Related Party Transaction voidable, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification if permitted under Applicable Law. It shall be open to the Corporation to proceed against its director or any other employee who had entered into such Related Party Transaction in contravention with Applicable Law.
- vii. No member of the Audit and Governance Committee/Board shall participate in the review or approval of any Related Party Transaction in which such member is interested.
- viii. The Audit and Governance Committee may grant an omnibus approval for Related Party Transactions which shall be valid for a period of 1 year. The conditions for according omnibus approvals will be as follows:
 1. The Related Party Transactions are repetitive in nature or foreseeable and are in the interest of the Corporation;
 2. The Related Party Transactions under the omnibus approval route shall be reported to the Audit and Governance Committee on a quarterly basis for its noting; and
 3. Where the need for Related Party Transactions cannot be foreseen and the details thereof are not available, the Audit and Governance Committee may grant omnibus approval for such transactions subject to their value not exceeding ₹ 1 crore per transaction per related party. Such transactions shall also be reported to the Audit and Governance Committee on a quarterly basis for its noting.

- ix. Notwithstanding the generality of foregoing, Audit and Governance Committee shall not grant omnibus approval for following transactions:
 - i. Transactions which are not in ordinary course of business or not on arm's length and covered under Section 188(1) of the Act;
 - ii. Transactions in respect of selling or disposal of an undertaking of the Corporation;
 - iii. Transactions which are not in the interest of the Corporation; and
 - iv. Such other transactions specified under Applicable Law from time to time.
 - x. Exceptions stipulated under Applicable Law for Related Party Transactions shall be exempted from the scope of this Policy unless the Audit and Governance Committee/Board of Directors of the Corporation decide otherwise.
- (b) Approval of Shareholders:
- i. All material Related Party Transactions and Material Modifications thereto require the prior approval of the Shareholders of the Corporation in accordance with this Policy and Applicable Law.
 - ii. The Audit and Governance Committee and Board of Directors of the Corporation shall approve all material Related Party Transactions before recommending the same for approval of the Shareholders.
 - iii. None of the related parties of the Corporation, whether or not such related party(ies) is a party to the Related Party Transactions, shall vote to approve material Related Party Transactions, unless permitted under Applicable Law.
- (c) General:
- i. Nothing in this Policy shall override any provisions of Applicable Law made in respect of any matter stated in this Policy and in case of conflict between the provisions of Applicable Law and this Policy, the provisions of Applicable Law shall prevail.
 - ii. A certificate shall be obtained from the Statutory Auditors of the Corporation or any practicing chartered accountant/firm on a quarterly basis stating that the Related Party Transactions entered into by the Corporation during the previous quarter were in accordance with this Policy.
 - iii. The Board of Directors of the Corporation shall, on an annual basis, review consolidated list of transactions with related parties.

10. Disclosures

As mandated under the Applicable Law, the Corporation shall disclose this Policy on its website i.e. www.hdfc.com and in the Annual Report. Disclosures regarding related party transactions will be made in accordance with and in the manner and format prescribed therein.

11. Policy Review

This Policy may be amended, modified or supplemented to ensure compliance with any modification, amendment or supplementation to the Applicable Law once in three years or as may be otherwise prescribed by the Audit and Governance Committee/Board from time to time.