



Related party transaction Policy  
Policy of Related Party Transactions of entities in IRB Group  
in respect of EPC contract/O & M

1. IRBIDL is primarily the holding company of the IRB group and is engaged in infrastructure development. IRBIDL carries on its business of carrying on Build Operate Transfer (“BOT”) projects through its various subsidiaries/SPVs.
2. The business model involves design, construction, development and operation of infrastructure development projects on self finance basis. As per current regulatory norms laid down for BOT projects, any company awarded a BOT project is required to incorporate a SPV to domicile the project prior to start of implementation of the project. Accordingly, once IRBIDL is selected by National Highways Authority of India (“NHAI”) to develop a project, it incorporates a SPV (company) for executing a particular project. The SPV is awarded the contract for Design, Engineering, Construction, Development, Finance, Operation and Maintenance of the road on BOT basis, including collection of the user fee and to carry out the ancillary activities as specified in the Concession Agreement entered into with the Government Authority.
3. SPV is newly formed company and is therefore required to award construction and operation & maintenance (O & M) work to an EPC contractor possessing requisite experience in design, estimating & planning, construction including sourcing of materials, monitoring, and operation & maintenance skills to implement them. The Company & its wholly owned EPC arm i.e. Modern Road Makers Private Limited have these pre-requisites & resources, which they usually utilise to implement the projects awarded to the Subsidiaries including construction and operation & maintenance.
4. Thereafter, the construction of the road is contracted by SPV to IRBIDL through an EPC Agreement, such that IRBIDL assumes all the obligations that the SPV has undertaken towards its client under the Concession Agreement. IRBIDL further sub-contracts the construction contract and operation and maintenance contract to its subsidiary Modern Road Makers Private Limited (“MRMPL”) that specializes in executing civil construction contracts with a wide experience in this sector. In case of this sub-contract also MRMPL assumes all the obligations that the IRBIDL has undertaken towards SPV.
5. Basis for Contract price between SPV and IRB:

Funding of a BOT project is usually done through a combination of equity (generally 30%) from IRB Group and debt (generally 70%) from a Consortium of Banks, which appraise the debt on the financial strength as well as established track record of IRBIDL in respect of borrowings by SPVs for other projects secured by IRBIDL. The bankers before sanction the Loan to SPV, perform a feasibility check of the project cost. An independent consultant is appointed by the lead banker for this purpose from their panel list. After performing site survey, the consultant provides a feasibility report of the project which also includes cost vetting report. Due to huge financial exposure, the lenders enter into an agreement only if they are satisfied with the Project cost estimated by the SPV.



Normally, the Lead banker appoints a leading independent Infrastructure Consulting Company to perform the Due diligence as mentioned above and with a view to assess the reasonableness of the cost to be incurred by SPV with reference to prevailing market prices. Such due diligence report/cost vetting report is obtained from lenders before commencement of the project.

Contract Price between SPV and IRB is decided on basis of a due diligence report on the costing determined during the stage of financial closure as prepared by an independent engineer employed by lenders for the purpose of financial closure/lending. Such due diligence report/cost vetting report obtained from lenders before commencement of the project is considered for corroborating the arm's length price.

6. Basis for Contract price between IRB and MRM:

IRB after benchmarking through prevailing commercial practices, trends and prices, quotations from various parties to the extent feasible, awards the Contract to its wholly owned EPC arm i.e. Modern Road Makers Private Limited.

Also, it is pertinent to note that as per Section 188 of the Companies Act, the expression "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. However, in case of IRB Group, companies with which EPC & O & M contract(s) are entered into, are wholly owned subsidiaries, incorporated for implementation of specific project under the bid conditions. Since these subsidiaries are wholly owned by IRB, no value leaves the Group and while consolidation of accounts, it reflects into the aggregate revenue & profits. Hence, if EPC & O & M contracts are executed on aforesaid manner, there is not conflict of interest between the objective of the IRB & its subsidiaries.

7. Definition of "Material Modification":

"Material Modifications means in relation to material related party transaction, increase of more than 25% of an original value/ consideration of such transaction."