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RELATED PARTY TRANSACTIONS AND CORPORATE GOVERNANCE: Balancing the Interests of Controlling Shareholders with the Protection of Minority Shareholders

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ABSRACT

Related party transactions (RPTs) are a regular feature of corporate activity, particularly in business groups where companies share promoters, directors, management or other commercial relationships. Such transactions may improve efficiency and facilitate legitimate business arrangements. At the same time, they create a risk that persons exercising control over a company may use its resources to secure benefits for themselves or entities connected with them. This paper examines how Indian corporate law seeks to manage that conflict. It considers the Companies Act, 2013, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the recommendations of the Uday Kotak Committee and the changes introduced through SEBI's 2025 amendments. It also discusses selected judicial and corporate episodes, including Satyam–Maytas, R.T. Agro and Tata Sons v. Cyrus Investments. The central argument is that India's framework has progressively strengthened disclosure and approval procedures, but formal compliance does not necessarily ensure fair outcomes. Effective minority protection depends on independent scrutiny, meaningful information, accountable decision-making and remedies that can be accessed in practice. Keywords: Related party transactions; corporate governance; controlling shareholders; minority shareholders; Companies Act, 2013; Section 188; Regulation 23; SEBI LODR; tunnelling; audit committee.

1. Introduction

Companies routinely enter into commercial arrangements with persons and entities connected to their directors, promoters or senior management. A group company may provide services to

another group entity, a director's relative may be engaged as a consultant, or a listed company may purchase goods from a business associated with its promoter. These arrangements are not automatically improper. In many circumstances, they are commercially sensible and help businesses operate efficiently. The governance concern arises because the parties may not be negotiating at arm's length in the ordinary commercial sense. The individual who influences the decision on behalf of the company may also benefit from the transaction through a connected business or family interest. The usual alignment between the company's interests and the decision-maker's interests can therefore break down. This concern has particular importance in India, where ownership and control are often concentrated in promoters or promoter groups. A shareholder may hold a relatively limited percentage of the company's total equity and still exercise considerable influence over board composition and corporate decisions. The key issue is how the law can permit legitimate transactions within business groups while preventing controlling persons from extracting private benefits at the cost of the company and its minority investors. This paper examines the legal framework governing RPTs in India, beginning with the Companies Act, 2013 and moving to the SEBI LODR Regulations. It then considers the influence of the Kotak Committee and the regulatory developments of 2025. Selected cases and corporate events are used to assess how the framework operates in practice. The final sections evaluate the balance between commercial flexibility and minority protection and suggest measures to make oversight more effective.

2. The Governance Risks Associated with Related Party Transactions

Corporate governance debates commonly distinguish between conflicts involving professional managers and dispersed shareholders, and conflicts between controlling shareholders and minority investors. In many Indian companies, the second form of conflict is especially significant. The Kotak Committee's 2017 review recognised that promoter influence can, in certain circumstances, result in decisions that favour controllers while weakening the position of public shareholders [6]. RPTs can provide a route through which corporate value is transferred to connected persons. Examples include selling company assets to a promoter-linked entity at an undervalue, purchasing supplies from a related business at inflated prices, extending loans to group entities on weak terms, or making substantial royalty payments to a promoter-owned enterprise. In corporate finance literature, the transfer of value from a company to its controlling shareholders or connected entities

is often described as “tunnelling”. A related practice, sometimes called “propping”, occurs when a company supports a financially troubled group entity through loans, guarantees or other assistance. The economic incentive behind an abusive transaction is straightforward. A controlling shareholder may own only part of the listed company but hold a much larger interest in the counterparty. If the transaction is structured unfairly, the controller may receive most of the benefit while bearing only a proportionate share of the loss suffered by the listed company. Minority shareholders, who have no comparable private benefit, bear the adverse effect through reduced company value. Nevertheless, treating every RPT as suspicious would be an unsuitable regulatory response. Connected-party dealings can reduce transaction costs, support integrated operations and provide access to specialised resources. The regulatory objective should therefore be to identify and control conflicts, rather than prohibit all transactions involving related parties. The OECD-related discussion referred to in Indian scholarship similarly recognises the board’s central role in reviewing RPTs while emphasising the responsibility of controlling shareholders not to misuse their position [4]. The challenge is to ensure that the transaction is assessed by persons who are sufficiently independent and have access to reliable information.

3. The Companies Act, 2013: Approval, Disclosure and Conflict Management.

Section 188 of the Companies Act, 2013 became effective on 1 April 2014. It consolidated and reworked aspects of the earlier Companies Act, 1956 framework, including provisions dealing with contracts in which directors had an interest [30]. The 2013 legislation placed greater emphasis on internal corporate approval, disclosure and shareholder oversight rather than relying primarily on prior government approval in the manner associated with the earlier regime [27]. The statutory starting point is the meaning of “related party” under Section 2(76). The definition covers specified relationships involving directors, their relatives, key managerial personnel and their relatives, as well as certain firms and companies in which such persons have an interest. It also includes holding companies, subsidiaries and associate companies in the circumstances set out in the Act [1][3]. Section 188 regulates specified categories of contracts and arrangements with related parties, including the sale or purchase of goods, the acquisition or disposal of property, the provision or receipt of services and appointments to an office or place of profit. The safeguards under Section 188 may be understood through three connected requirements: 1. Prior approval: A covered transaction requires the consent of the board. Where the prescribed monetary limits under Rule 15

of the Companies (Meetings of Board and its Powers) Rules, 2014 are crossed, approval of the members by special resolution is also required. 2. Restriction on interested voting: A member who is a related party is generally not permitted to vote on the relevant special resolution. This is intended to prevent an interested person from using voting power to approve a transaction from which that person may benefit [1]. 3. Disclosure and accountability: The transaction must be appropriately disclosed, and the board is expected to provide the relevant information and justification to members [4]. Section 177(4)(iv) operates alongside Section 188. It requires the audit committee to approve related party transactions and any subsequent modification. Subject to the prescribed conditions, the committee may grant omnibus approval for transactions that are repetitive or entered into repeatedly [3]. This gives the audit committee an important role in examining transactions before they proceed. The Act also recognises that some connected-party dealings do not require the full Section 188 approval process. The provision does not apply to transactions entered into in the ordinary course of business and on an arm's length basis [1]. The Ministry of Corporate Affairs has also clarified that compromises, arrangements and amalgamations governed by their own statutory provisions do not attract Section 188 in the manner described in its circular [2]. Certain additional exemptions and modifications have been introduced through notifications, including the specified exception relating to companies in which 90 per cent or more of the members, by number, are relatives of promoters or related parties, and relief granted to private companies from the special-resolution requirement under the relevant notification [28][29]. A continuing difficulty is the application of the "ordinary course" and "arm's length" tests. These concepts are central to deciding whether a transaction falls outside the approval requirement. Yet the company initially makes that classification. If the reasoning and market benchmarks are not properly recorded or disclosed, minority shareholders may have little opportunity to challenge the classification before the transaction is completed. The exemption is commercially necessary, but it requires credible internal scrutiny.

4. SEBI LODR Regulations and the Influence of the Kotak Committee

Listed entities are subject to an additional regulatory framework under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Regulation 23 requires audit committee oversight of RPTs and shareholder approval for material transactions, subject to the detailed requirements of the regulations [31]. The listed-company regime is particularly important

because it addresses the interests of public investors who may have limited influence over management and board decisions. In June 2017, SEBI constituted the Committee on Corporate Governance under the chairmanship of Uday Kotak. The committee submitted its report in October 2017, including a chapter dealing with promoters, controlling shareholders and related party transactions [7][9]. SEBI's board considered the recommendations on 28 March 2018 and accepted most of them [8]. Three proposals were especially relevant to RPT oversight. First, the committee recommended broadening the related-party framework so that certain promoter and promoter-group entities could not avoid scrutiny merely because they fell outside the earlier definition [9]. A wider definition was intended to reduce opportunities for structuring transactions through connected entities that were not expressly captured. Second, the committee proposed that all material RPTs should receive shareholder approval and that related parties should not be permitted to vote in favour of such transactions. The approach is commonly associated with a "majority of the minority" principle: approval should come from shareholders who do not have the same conflict of interest as the related party [7][8][9]. The practical objective is to ensure that a controller cannot rely on its own voting strength to approve a transaction benefiting a connected entity. Third, the committee considered royalty and brand-related payments to related parties. It proposed shareholder approval where such payments exceeded five per cent of consolidated turnover. SEBI adopted a two per cent threshold when it implemented the recommendation in 2018 [9][10]. This was significant because recurring royalty payments can represent a substantial transfer of value from a listed company to a promoter-linked entity. Further amendments notified on 9 November 2021 expanded the scope of "related party" and "related party transaction" and revised the materiality framework [11]. Until the changes took effect in December 2025, the materiality test was based on the lower of n1,000 crore or 10 per cent of the listed entity's annual consolidated turnover [12][13]. There is a difference in the way the Companies Act and the LODR Regulations frame voting restrictions. Under Section 188, an interested related-party member is generally barred from voting on the relevant resolution. Under the SEBI framework shaped by the Kotak reforms, related parties may vote against a material RPT but cannot vote in favour of it [1][7]. Although the drafting differs, both approaches seek to prevent conflicted shareholders from being decisive in approving a transaction.

5. Regulatory Developments in 2025: Revised Materiality and Disclosure Standards

The RPT framework underwent further change in 2025. Two developments are particularly important: the introduction of a turnover-linked materiality scale and the standardisation of information to be placed before audit committees and shareholders.

A. A graded materiality threshold: SEBI notified the SEBI LODR (Fifth Amendment)
Regulations, 2025 on 18 November 2025. The relevant RPT provisions came into effect on 18 December 2025 [12]. The earlier test, based on the lower of n1,000 crore or 10 per cent of annual consolidated turnover, was replaced by a graded formula in Schedule XII [12][13]. The scale described in the paper is as follows:

Material Related Party Transaction (RPT) Threshold

Annual Consolidated Turnover	**Material RPT Threshold**
Up to ₹20,000 crore	**10% of consolidated turnover**
₹20,001 crore to ₹40,000 crore	**₹2,000 crore + 5% of turnover above ₹20,000 crore**
Above ₹40,000 crore	**Lower of: (a) ₹3,000 crore + 2.5% of turnover above ₹40,000 crore; or (b) ₹5,000 crore**

5.1 Effect of the revised threshold
The rationale for moving away from a single fixed ceiling was that n1,000 crore could be an unduly low threshold for very large conglomerates that undertake numerous intra-group transactions [17]. The revised approach links the threshold more closely to the size of the listed entity. The amendment also addresses certain transactions undertaken by subsidiaries where the listed entity itself is not a party. Such a subsidiary RPT may require approval from the listed entity's audit

committee if it crosses 10 per cent of the subsidiary's standalone turnover or the applicable Schedule XII threshold, whichever is lower [12]. The exclusion relating to retail purchases from the RPT definition was also widened [12]. A further amendment notified on 20 January 2026 extended Regulation 23, except sub-regulations (8) and (9), to high-value debt listed entities [34].

B. Standardised information for approval

SEBI also introduced industry standards specifying minimum information to be provided to audit committees and shareholders when an RPT is submitted for approval. The initial circular was issued on 14 February 2025 [32]. A revised version dated 26 June 2025 became applicable from 1 September 2025 [33]. A further circular dated 13 October 2025 provided graded relaxations for lower-value transactions [15]. The standards follow a three-part information structure, while transactions with a related party that do not exceed n1 crore in a financial year are outside the detailed formats described in the paper [14]. Commentators have noted that the standards are binding on listed entities and that non-compliance may therefore have consequences under the SEBI Act, 1992 [16]. Taken together, these changes indicate a regulatory shift. For the largest listed groups, the threshold at which shareholder approval is triggered has increased, while the information requirements applicable to transactions requiring approval have become more structured. Whether this is an appropriate balance depends on the quality of audit committee oversight and the ability of shareholders to understand and use the information disclosed.

6. What Corporate Events and Decisions Reveal

A. Satyam–Maytas (2008)

In December 2008, Satyam Computer Services announced a proposal to acquire Maytas Properties and a controlling interest in Maytas Infrastructure. Both entities were controlled by members of the family of Satyam's founder-chairman, and the proposed consideration was approximately US$1.6 billion [19][20]. The promoters held less than 10 per cent of Satyam [19]. The proposal was not intended to be placed before minority shareholders on the basis that the applicable rules did not require such a vote [18][19]. Institutional investors objected strongly. Templeton indicated that it would take extensive steps to oppose the transaction, and Satyam withdrew the proposal within hours of the announcement [18][19]. Contemporary reporting also raised concerns that independent directors had not objected to the proposal before the investor reaction forced its

withdrawal [20]. The episode demonstrates two weaknesses. First, the legal framework then in force did not provide the shareholder-voting safeguard that later reforms sought to strengthen. Investor pressure, rather than a mandatory minority approval process, became the immediate restraint. Second, the board's independent oversight did not appear to prevent the proposal from being announced. The later Kotak recommendations can be understood, in part, as an attempt to address these weaknesses through stronger voting restrictions and broader scrutiny of related parties.

B. R.T. Agro (P.) Ltd. v. SEBI (SAT, Mumbai, 2022)

In R.T. Agro, R.T. Exports Ltd. had passed a special resolution concerning a memorandum of understanding with Neelkanth Realtors Pvt. Ltd. Related parties abstained from voting in accordance with Section 188. The dispute concerned whether those related parties could subsequently vote on a proposal to rescind the earlier resolution. The Securities Appellate Tribunal held that neither Section 188 nor Regulation 23 prohibited related parties from voting to rescind an earlier resolution, because the restriction was directed at voting to approve a transaction in which they were interested [5]. The decision illustrates the importance of interpreting voting restrictions according to their statutory language. It also highlights the distinction between using a vote to approve a conflicted transaction and participating in a later decision to withdraw or reverse an approval.

C. Tata Sons v. Cyrus Investments (Supreme Court, 2021)

The dispute in Tata Sons v. Cyrus Investments was not principally an RPT case. It is nevertheless relevant to the broader question of remedies available to minority shareholders. On 26 March 2021, the Supreme Court set aside the NCLAT's order, restored the NCLT's decision and concluded that oppression or mismanagement had not been established [22]. Commentary on the judgment has treated it as an illustration of the difficulty minority shareholders may face when seeking relief for oppression, prejudice or mismanagement [21]. Its relevance here is therefore remedial: even where shareholders believe that corporate control has been exercised unfairly, obtaining tribunal intervention is not straightforward.

7. Remedies Where Approval and Disclosure Safeguards Are Inadequate

Where a transaction has already been completed, and minority shareholders believe that it has harmed the company or prejudiced their interests, Sections 241 and 242 of the Companies Act, 2013 provide an important route to the National Company Law Tribunal. Section 241 permits eligible members to complain about the conduct of the company's affairs where it is oppressive or prejudicial to members or to the company. Section 242 gives the Tribunal power to make appropriate orders. Diversion of company assets and related-party dealings on non-commercial terms may, depending on the facts, form part of an oppression or mismanagement complaint.

Access to this remedy is subject to practical limitations.

Standing requirements: Section 244 prescribes minimum membership or shareholding thresholds for an application. In a company with share capital, the statutory requirements include the prescribed number or proportion of members, or members holding at least one-tenth of the issued share capital. The Tribunal may waive the requirements. However, the NCLAT has upheld a refusal to grant a waiver in a matter involving appellants holding 5.83 per cent of the share capital [23].

A demanding legal test: A decision that proves commercially unsuccessful does not, by itself, amount to oppression. The Tribunal must consider whether the conduct satisfies the legal standard. This limits intervention in ordinary business decisions, but it can also make it difficult for minority investors to obtain relief where the evidence is complex or the transaction is presented as a commercial judgment [25].

The timing problem: Proceedings generally take place after the disputed transaction has occurred. By that stage, assets or funds may already have been transferred, making effective recovery more difficult.

SEBI enforcement provides another avenue where a listed entity has breached Regulation 23. Regulatory action may be challenged before the Securities Appellate Tribunal, as the R.T. Agro proceedings illustrate [5]. Analysis of matters involving Satyam, DHFL and Fortis Healthcare has also examined the role of related-party dealings and alleged diversion of funds, while questioning

whether LODR reforms provide minority investors with meaningful protection rather than merely procedural safeguards [26].

8. Assessing the Balance Between Controllers and Minority Investors

The Indian framework relies on three principal safeguards: approval by the appropriate corporate body, restrictions on voting by interested parties, and disclosure of information relevant to the decision. The Companies Act, 2013 established an approval-and-abstention structure. The Kotak reforms strengthened the role of public shareholders in material RPT decisions. The 2025 amendments placed greater emphasis on standardised information while increasing the materiality threshold for the largest entities.

The practical effect of the revised threshold can be seen by comparing illustrative turnover levels under the earlier and later tests. The following figures are calculations based on the former test and the Schedule XII formula referred to in the sources [12][13]:

Annual consolidated turnover | Threshold before 18 December 2025 | Threshold from 18 December 2025
n5,000 crore | n500 crore | n500 crore
n15,000 crore | n1,000 crore | n1,500 crore
n30,000 crore | n1,000 crore | n2,500 crore
n1,00,000 crore | n1,000 crore | n4,500 crore

The comparison suggests that companies with turnover up to n10,000 crore may see no change under the illustrated calculation, while the shareholder-approval threshold rises for larger groups. Consequently, a greater range of transactions in the largest companies may be considered by the audit committee without a separate material-RPT shareholder vote. This makes the committee's independence, expertise and willingness to challenge management especially important. The Satyam episode demonstrates why the presence of independent directors on paper cannot, by itself, guarantee effective oversight [20].

There are reasonable arguments in favour of the revised approach. A uniform n1,000 crore ceiling was considered insufficiently sensitive to the scale of very large conglomerates and their volume of intra-group business [17]. Standardised disclosure formats can also improve consistency by ensuring that the audit committee and shareholders receive a common minimum set of information [14][16]. The October 2025 circular's relaxations were presented as an effort to reduce compliance burdens while retaining Regulation 23's transparency objectives [15].

However, three concerns remain.

First, disclosure is useful only when recipients can understand it and act upon it.
Institutional investors may have the staff and resources to examine complex transaction documents, financial information and pricing benchmarks. Individual shareholders may not have the same capacity. Technical disclosure can therefore satisfy a formal requirement without enabling meaningful participation.

Second, the ordinary-course and arm's-length exclusions remain important gateways. The new materiality thresholds and disclosure formats do not, by themselves, resolve the question of who determines whether a transaction qualifies for the exemption. If that assessment is made without independent testing or a recorded explanation, the risk of self-classification remains [1].

Third, remedies under Sections 241 to 244 may be difficult to access. Standing requirements, the demanding legal standard and the time involved in proceedings can limit the practical value of a remedy that becomes available only after the transaction has taken place [23][25].

The framework is therefore most effective where minority shareholders are organised, informed and able to question decisions. Where public ownership is dispersed, and investors are passive, protection depends heavily on the audit committee's integrity and independence. Regulatory rules matter, but their effectiveness ultimately rests on the quality of the people applying them. 9.

Recommendations and Conclusion

The regulatory objective should be to protect minority investors without imposing unnecessary barriers on genuine commercial dealings between group entities. The following measures could improve the operation of the existing framework.

1. Require reasons for exemption-based classification. When a company treats a transaction as being in the ordinary course of business and on arm's length terms, the audit committee should record the basis for that conclusion. Relevant market comparisons, valuation methods or pricing benchmarks should be retained and made available to shareholders where appropriate. The discipline of reasoned approval should extend to transactions excluded from the ordinary Section 188 process.

2. Record and disclose dissent. If an independent director objects to a proposed RPT, the objection and the reasons for it should be accurately reflected in the minutes. Where shareholder approval is sought, material dissent should be communicated to members. This would help investors understand whether the board considered competing views rather than merely endorsing management's proposal.

3. Use accessible summaries. Notices seeking approval for material RPTs should begin with a concise explanation of the transaction. The summary should identify the related party, explain who is expected to benefit, describe how the consideration was determined and state whether alternative counterparties or pricing options were considered. Detailed technical information can follow, but the principal issues should be understandable to retail shareholders.

4. Review the operation of the revised thresholds. SEBI should periodically examine how many transactions fall below the Schedule XII materiality threshold and are consequently considered without a separate shareholder vote. Such monitoring would help determine whether the revised scale is working as intended and whether adjustments are necessary.

5. Apply the Section 244 waiver power meaningfully. Where a minority shareholder presents credible documentary material suggesting diversion of value through RPTs, the NCLT should carefully consider whether strict application of the numerical standing requirements would prevent

a genuine grievance from being examined. The waiver power should be exercised consistently with the statutory framework and the facts of each case.

Conclusion

Related party transactions are an ordinary part of corporate life, particularly in companies operating through group structures. Their existence does not establish wrongdoing. The governance risk lies in the possibility that a person who controls corporate decisions may use a transaction with a connected party to secure benefits that are not available to the company or its shareholders as a whole. Indian law responds through the Companies Act, 2013, the SEBI LODR Regulations, audit committee scrutiny, shareholder approval, voting restrictions, disclosure requirements, and remedies for oppression and mismanagement. The Kotak Committee reforms strengthened the role of minority shareholders, while the 2025 changes introduced a graded materiality scale and more standardised information requirements. These developments represent a more detailed regulatory framework, but they do not eliminate the underlying conflict of interest.

The principal challenge is now one of implementation. A higher threshold may reduce the number of transactions requiring a shareholder vote, making independent audit committee review even more consequential. Better disclosure is valuable only if it is intelligible, complete and capable of supporting informed scrutiny. Post-transaction remedies are important, but they cannot always restore value once it has been diverted. Minority protection will therefore be strongest when companies explain their decisions, independent directors are willing to challenge conflicted proposals, and regulators and tribunals can respond effectively to abuse. The credibility of India’s RPT regime depends not merely on the existence of procedural safeguards, but on whether those safeguards work in practice.