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THE CONFLICT OF INTEREST WITHIN THE BOARDROOM: EXAMINING RELATED PARTY TRANSACTIONS AND MINORITY SHAREHOLDER PROTECTION UNDER INDIAN CORPORATE LAW

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Abstract

Related party transactions are a normal part of group business in India, and the law does not forbid them. The trouble is that the same people often sit on both sides of the deal, and the shareholders who bear the cost have no seat at the table. This article looks at how Indian law responds to that problem. It covers the definition of "related party" in the Companies Act, 2013, the duties of directors, the audit committee, Section 188, Regulation 23 of the SEBI (LODR) Regulations, 2015, and the oppression remedy under Sections 241 and 242. It also considers SEBI's 2025 reforms, namely the circulars on minimum disclosure and the new scale-based materiality thresholds. I argue that Indian law is now strong on information but still weak on independence and enforcement. Better disclosure helps the people who approve a transaction. It does little for the shareholders who cannot.

I. Introduction

Annual reports of Indian business groups commonly include disclosures concerning related-party transactions. In that note a listed manufacturer may buy inputs from a supplier owned by a promoter. A subsidiary might lend money to a sister concern. A company might rent office space from a director's family firm. Some of these arrangements make sense. Others simply move value out of a company while nobody says anything about it.

The underlying conflict is straightforward. When the promoter controls the board the promoter essentially gives approval to a deal that involves himself. A minority shareholder who owns a small stake rarely learns about it until much later if at all. Indian law has attempted to fix this problem by putting overlapping controls in place. These controls include a definition of related parties, fiduciary duties on directors scrutiny by an audit committee shareholder approval, for larger deals and mandatory disclosure. In 2025 SEBI revised parts of this system. I think this system still leaves gaps.

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The central question is whether approval and disclosure requirements under the Companies Act, 2013 and the LODR Regulations adequately protect minority shareholders against abusive related-party transactions.

II. The Companies Act, 2013

A. Defining a related party

Section 2(76) gives a definition of "related party."[1] This includes directors and key managerial personnel (KMP) along with their relatives. It also covers firms where a director or relative is a partner. Private companies where a director or relative is a member or director are also included. The definition extends to public companies if a director and their relatives together hold more than two per cent of the paid-up capital. It also includes bodies whose board usually follows the advice of a director. Holding companies, subsidiary companies and associate companies are all covered. The way the law is written shows that Parliament was worried about influence much, as actual ownership..

B. What directors owe the company

Section 166 sets the baseline.[2] I believe a director must act honestly to promote the company's goals for all members and also think about employees, shareholders, the community and the environment (s 166(2)). Section 166(4) says a director must avoid situations where the director's own interest clashes with the company's interest. Section 166(5) says a director must not gain an advantage. Section 184(2) says that if a director has an interest the director must reveal it and must not join the discussion, about the contract.[3] The Supreme Court has often said that directors are fiduciaries and must use their powers for the reasons.[4]

C. The audit committee

Listed companies and certain other classes must have an audit committee. In that audit committee independent directors must be a majority.[5] Under s 177(4)(iv) the audit committee has duties. One duty is to approve party transactions. The audit committee also approves any changes, to those transactions as long as the conditions are right. In practice the audit committee is the real checkpoint.

D. Section 188

Section 188 covers types of related party transactions. These include the sale, purchase or

1 Companies Act, 2013, s 2(76).
2 Companies Act, 2013, s 166(2), (4), (5).
3 Companies Act, 2013, s 184(2).
4 Dale & Carrington Investment (P) Ltd v P K Prathapan (2005) 1 SCC 212.
5 Companies Act, 2013, s 177(2), (4)(iv).

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supply of goods; dealings in property; leasing; services; appointing agents; appointing a party to a position or office that brings profit; and underwriting.[6] When such a transaction goes beyond the limits set in Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 the board must give its approval. In some cases shareholders must also pass a resolution before the transaction can go ahead.[7]

There are a few points that matter a lot for minority shareholders. A member who is a party cannot vote on the special resolution. Transactions that happen in the course of business and at arm's length are not required to be approved under this section. In my view is the practical issue. That is because the real question then becomes whether the price was truly fair and arm's length. If a contract is made without the approval the board can cancel it if it is not approved within three months. The director or employee who was involved may have to pay the company back. Also breaking the rules can lead to penalties, for the officers involved.

III. The Listed Company Layer: Regulation 23

Regulation 23 of the LODR Regulations is stricter than the Companies Act.[8] Every related party transaction of a listed entity must receive audit committee approval and only independent directors on the audit committee can grant approval. The company must also keep a board-approved policy that sets its materiality thresholds. For material transactions shareholders must approve beforehand. No related party may vote, whether or not it is a party to the specific transaction. This "majority of the minority" rule is, in my view the useful minority safeguard in the entire framework because it takes the promoter's votes out of the count. Until 2025 a transaction was material if it exceeded the lower of ₹1,000 crore or ten percent of annual consolidated turnover.[9] The LODR definition of a related party transaction in Regulation 2(1)(zc) is also wider than the Companies Act's. It captures transactions, between the listed entity or its subsidiary and a related party and transactions that benefit a party even where it is not a direct counterparty.[10]

6 Companies Act, 2013, s 188(1).
7 Companies (Meetings of Board and its Powers) Rules, 2014, r 15.
8 Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, reg 23.
9 SEBI (LODR) Regulations, 2015, reg 23(1) (pre-December 2025 text). See Vinod Kothari Consultants, "SEBI approves relaxed norms on RPTs" (20 November 2025) https://vinodkothari.com/2025/11/sebi-approves-relaxed-norms-on-rpts/.
10 SEBI (LODR) Regulations, 2015, regs 2(1)(zb), 2(1)(zc).

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IV. The 2025 Reforms

A. Minimum information

An approval is only as good as what the approver sees. SEBI's circular of 14 February 2025 (SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18) asked listed companies to follow Industry Standards, created by ASSOCHAM, CII and FICCI through the Industry Standards Forum, about the information that must be shown to the audit committee and to shareholders.[11] Those standards were to start on 1 April 2025. After hearing from the industry a new circular on 21 March 2025 moved the start date to 1 July 2025. Asked the Forum to look at the standards again.[12] The final decision was made on 26 June 2025 with SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/93. That circular set new standards that begin on 1 September 2025 and said that the earlier two circulars were no longer valid.[13] From then on, the audit committee must receive the required information with every RPT proposal and the explanatory statement in a notice to shareholders must include the same information in addition to what the Companies Act says.[14] A later circular on 13 October 2025 (SEBI/HO/CFD/CFD-PoD- 2/P/CIR/2025/135) eased the format rules, for thresholds and kept the ₹1 crore exemption.[15] For citation purposes the June circular is the one that matters and the February circular is now a past note.

B. Scale-based materiality

The larger change arrived later in the year. The SEBI (LODR) (Fifth Amendment) Regulations, 2025 were announced in November 2025. The RPT provisions began to apply in December.[16] The old flat test was replaced by a sliding scale in a Schedule XII. For turnover up to ₹20,000 crore the threshold equals ten percent of turnover. For turnover between ₹20,000 crore and ₹40,000 crore the threshold equals ₹2,000 crore plus five percent of the amount that exceeds ₹20,000 crore. For turnover above ₹40,000 crore the threshold equals ₹3,000 crore plus 2.5 percent of the amount that exceeds ₹40,000 crore, capped at ₹5,000 crore.[17] The amendment also redefined what counts as a "transaction of a subsidiary requiring the listed parent's audit

11 SEBI, Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18 (14 February 2025).
12 SEBI, Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/37 (21 March 2025).
13 SEBI, Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/93 (26 June 2025) https://www.sebi.gov.in/legal/circulars/jun-2025/industry-standards-on-minimum-information-to-be-provided-to-the-audit-committee-and-shareholders-for-approval-of-related-party-transactions-_94809.html. See also KPMG India, "First Notes: SEBI notifies revised RPT Industry Standards" (July 2025).
14 SEBI, Master Circular (11 November 2024), s III-B, paras 4 (Part A) and 6 (Part B), as substituted by the circular at n 13.
15 SEBI, Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/135 (13 October 2025).
16 SEBI (LODR) (Fifth Amendment) Regulations, 2025. Commentary reports notification in November 2025 and RPT provisions effective in December 2025 (18 or 19 December depending on the source; confirm against the Gazette).
17 SEBI (LODR) Regulations, 2015, reg 23(1) and Schedule XII, as amended; Vinod Kothari Consultants (n 9).

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committee approval and added a ₹1 crore small-value exemption.[18]

One reported figure deserves attention. Back-testing on the 100 NSE companies suggested the new scale would cut material RPT resolutions by roughly 60 percent.[19] I come back, to this below.

V. When Prevention Fails: Sections 241 and 242

If a minority shareholder objects after the event the minority shareholder may file a petition with the National Company Law Tribunal under Sections 241 and 242.[20] Section 241 covers affairs that are conducted in a way that's oppressive to a member or prejudicial to the company or to the public interest. Section 244 imposes a requirement for companies that have share capital. The requirement is that the company must have least one hundred members or one-tenth of all members or holders of one-tenth of the issued capital whichever number is the smallest. However the National Company Law Tribunal may waive this requirement. Section 242 gives the National Company Law Tribunal the power to regulate the company's affairs and to set aside transactions among types of relief.

The case law sets a demanding bar for minority shareholders. In Needle Industries the Supreme Court held that oppression means conduct that's burdensome, harsh and wrongful.[21] In Shanti Prasad Jain v Kalinga Tubes the court held that a mere loss of confidence between shareholders is not sufficient.[22] In Tata Consultancy Services Ltd, v Cyrus Investments Pvt Ltd, the Supreme Court overturned the NCLAT's order that reinstated Cyrus Mistry and stressed that the oppression standard is strict.[23] None of these cases is an RPT case.. A minority shareholder who claims that a related-party deal was unfair will have to clear that demanding bar, usually many years later.

VI. Are the Safeguards Enough?

I think they are somewhat enough and the gaps are worth pointing out. What follows is my opinion, not a final legal or official view.

Information alone does not solve a conflict. The Industry Standards give approvers material, including the reasoning and valuation basis. That is an improvement. But audit committee

18 Vinod Kothari Consultants (n 9).
19 Vinod Kothari Consultants (n 9) (reporting SEBI's back-testing on the top 100 NSE companies).
20 Companies Act, 2013, ss 241, 242, 244.
21 Needle Industries (India) Ltd v Needle Industries Newey (India) Holding Ltd (1981) 3 SCC 333.
22 Shanti Prasad Jain v Kalinga Tubes Ltd AIR 1965 SC 1535.
23 Tata Consultancy Services Ltd v Cyrus Investments Pvt Ltd (2021) 9 SCC 449.

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members are, in practice chosen with promoter support. A informed committee that depends on the promoter can still approve a deal an independent group would reject. Disclosure fixes a knowledge issue. The main part of the RPT problem is an incentive issue.

Fewer transactions now go to shareholders. The majority-of-the-minority vote is the check there is but it only applies to material transactions and the 2025 amendment raised that limit. The logic is acceptable. When shareholders are asked to vote on everything voting becomes a formality. Still more transactions now depend on the audit committee. Regulation 23(1) combines transactions with the related party over a financial year, which is helpful but routing deals through different entities can get around it.

Statutory definitions can sometimes be circumvented. The law only applies to transactions with " parties" as defined. Control through nominees, complex structures or entities outside the definition may avoid it. The arm's length exemption in Section 188 also leaves a lot to a pricing judgment that a minority shareholder cannot easily challenge.

Unlisted and closely held companies receive less protection. Regulation 23 does not apply to them. Their minority shareholders have Section 188 with its exemptions and the oppression remedy with its bar and requirements for standing.

Enforcement happens late. Voidability and indemnity seem good on paper. In reality the minority has to deal with the cost and delay of court cases. Must meet the standard set in Needle Industries and Cyrus Investments.

There are strengths too. Keeping parties out of the vote on material transactions is a meaningful protection. SEBI's move to disclosure together, with the RPT analysis portal it announced in February 2025 shows a more data-driven way of supervision.[24]

VII. What Could Be Done

Four changes would address the gaps above. First require audit committees to record their reasons when approving RPTs, with independent directors confirming that terms are arm's length. Second require valuation or benchmarking above a set size so that the arm's length claim is tested instead of assumed. Third look at promoter groups as a whole. Use beneficial ownership information to reach intermediaries so that splitting a deal, across entities does not defeat aggregation. Fourth track outcomes after approval by comparing transaction values with approved values and use SEBI's data capacity to flag patterns early.

24 IRCCL, "SEBI's New Disclosure Standards for Related Party Transactions and Corporate Governance Implications" https://www.irccl.in/post/sebi-s-new-disclosure-standards-for-related-party-transactions-and-corporate-governance-implications.

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VIII. Conclusion

Indian law does not prohibit related-party transactions. Indian law asks that they be visible and that someone independent looks at them. The structure built from Sections 2(76) 166, 177 and 188 of the Companies Act, Regulation 23 and the oppression remedy has become more detailed, with each reform; the 2025 changes continued that pattern. Disclosure and approval are tools and they work only as well as the people using them. If the approver is not truly independent if the shareholder vote covers a shrinking set of deals and if relief arrives after long litigation the safeguards are necessary but not sufficient. In my view the next round of reform should worry less about adding information and more about who receives it. and how effectively that information is acted upon.

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