INDOCO REMEDIES LIMITED

RISK MANAGEMENT POLICY

I. INTRODUCTION:

This Policy is in compliance with SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 and provisions of Companies Act, 2013 read with Rules made thereunder which requires the Company to lay down Risk Management Policy, Procedure and Practices.

The Company recognises its responsibility to manage risk in an effective and efficient manner as a fundamental component of business operations. The Company is committed to identifying and analysing risks associated with activities and operations with the objective of maintaining a safe workplace, minimising losses and maximising opportunities, developing appropriate risk treatment options, and informed decision-making.

Risks can be threats or opportunities and a failure to manage them is a significant danger to the Company's survival and growth. The purpose of this policy is also to communicate the Company's common and systematic approach to managing risk.

II. DEFINITIONS:

1. **Company:** means Indoco Remedies Limited/Indoco

2. **Audit Committee** means Audit Committee of Board of Directors of Indoco Remedies Limited constituted under section 177 of the Companies Act, 2013 and under regulation 18 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015.

III. CLASSIFICATION OF RISKS:

The risk can be classified as follows:

Firstly, the risk can be identified as being internal or external, secondly subject matter wise the risk can be classified as:

i. Operational risks
ii. Financial risks
iii. Sectorial risks
iv. Sustainability risks (particularly, environment, safety and governance related risks)
v. Information, Cyber security risks
vi. Other Risks

i. **<u>Operational Risks:</u>**

Operational Risks/Business risk relates to the day to day business activities carried out within an organisation, arising from structure, systems, people, products or processes. The Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Broadly, there are risk associated to manufacturing and trading operations:

A. Risks related to manufacturing operations:

1. Raw material / Packing Material Risk

Non availability of good quality raw material could negate the qualitative and quantitative production of pharmaceutical products.
Fluctuation in Pricing leading to increased Cost of Production which in turn will result in lower Profits

Risk Mitigation

The Company procures its raw material both locally and internationally on a sustained basis and based on strict quality norms. The Managing Director and Joint Managing Director have constituted a committee consisting of the Purchase Team. The Risk is mitigated by having multiple suppliers for the majority of the Raw Material items. The Team reports to the Joint Managing Director on a monthly basis of any hike in Price of RM. These measures have enhanced the Company's ability to increase its raw material availability.

2. Plant & Machinery Breakdown Risk

Loss of Production due to Plant &Machinery Breakdown

Risk Mitigation

Stocking spare parts which have a long delivery period, Effective preventive Maintenance, Monitoring of the maintenance activity by the Plant Head with the Engineering Head, Monthly review Meetings by the Plant Head with Vice President (Operations) and corporate Engineering Team

3. Inventory risk

Risk in carrying excess Inventory of both Raw Materials and Finished Goods.

Risk Mitigation

Regular Review is conducted between the Plant Head and the Purchase Team to ensure that the Raw Material inventory is maintained at 30-45 days' level, Regular Review is conducted between the Plant Head and the distribution Team to ensure that a 45- day inventory of Finished Goods is maintained at all CFA locations all over India.

4. **Insurance Risk**

The Company can face liabilities on account of the following Risks:

- Loss incurred while transporting goods
- Fire in the factory or godown or CFA or LL Locations
- Product Liability - Claims against Directors or Senior Executives of the Company
- Clinical Trials

Risk Mitigation

The Company purchase insurance policies where it is required by law, by contract or deemed to be in the best interest of the Company. The Company has taken following comprehensive Insurance Policies:

- Marine Policy which covers Transit Insurance of all goods- be it Capital Goods, Raw Material or Finished Goods.
- Industrial all Risk Policy for any loss incurred to the Plant & Machinery as well as all Stocks kept at the Plants and Company's godowns. The stock kept at CFA locations as well as LL locations are also covered by insurance.
- Product Liability policy to cover any claims made against the company with regard to the Product.
- Director & Officers Liability Policy to cover all Directors as well as Senior Executives of the Company. Any decision taken during the tenure is covered lifetime post the relinquishment of office.
- Any liability incurred on account of the Clinical Trials are covered by the Clinical Trial Policy.

5. **Space constraints for smooth operations and warehousing.**

Risk Mitigation

Hiring more space to cope up with issue of space constraint.

B. Risks related to trading operations:

1. Depending on stockist, dealers and other channel partners and agents ("dealers") for the sale and distribution of our products.
2. Loss of our major dealers or a decrease in the volume of products may adversely affect our revenues and results of operations.
3. No assurance on continuation of current relationship with our dealers or expanding network.
4. Our dealers may fail to adhere to the plan and meet the targets and the standards we set for them in respect of sales and after-sales support, which in turn could adversely affect our business performance and also customers' perception of our brand and products.
5. Global political factors like change in governments resulting in application of stricter trade policies and degrading social conditions like spreading of COVID-19 all over the world are beyond our control.
6. Dependency on prevailing regulatory, economic, social, and political conditions in India. These factors influence the Indian economy, which, in turn, significantly affects the results of our operations. These factors are:
   - political instability, terrorism, or military conflict in India, or other countries globally;
   - occurrence of natural or man-made disasters;
   - any increase in Indian interest rates or inflation;
   - any exchange rate fluctuations;
   - any scarcity of credit or other financing in India, resulting in an adverse impact on economic conditions in India and scarcity of financing for our expansions;
   - instability in financial markets; and
   - other significant regulatory or economic developments in or affecting India.

7. Dependency on economic and market conditions in India and other jurisdictions. The Indian economy may be affected by global economic uncertainties and liquidity crises, domestic policy, the domestic political environment, volatility in interest rates, currency exchange rates, commodity prices, electricity prices, adverse conditions affecting agriculture, rising inflation rates and various other factors.

Measures for Risk Mitigation:

The Company may take following steps to mitigate the aforesaid trading operational risks:

1. Retain our dealers by providing incentives and other offers to sell our products. Conducting regular meeting to understand the ground issues with various dealers.
2. Strategically sourcing products both from international and domestic markets. The Company has actively undertaken a diversification of suppliers' strategy and has been able to increase its supply base quite substantially. This will protect the Company in the event of any problems with any single supplier.
3. Developing Ecommerce/direct online selling capabilities for reducing dependence on dealers and distributors
4. Expand the distribution network and exploring global market opportunities.
5. Increase the direct connect with customers by introducing brand loyalty and other engagement programs
6. Framing, following, updating and adhering Standard Operating Policies (SOPs) to meet the requirements regulatory, economic, social changes and emerging economic and market conditions.

ii. Financial Risks:

1. **Realisations risk**
   Any decline in the realisations would directly affect the Company's performance.

   Risk Mitigation
   The Company sells all its products in retail packs, ensuring that while the quality is maintained on one hand; on the other hand, its products don't get perceived or compared with the quality of unpacked unbranded pharma products.
   The Company sells all the varieties under credible brands, which caters to all the major consumers, assuring them of the superior quality of the Company's products, leading to better realisations, even in the wake of large competing brands.

Company has a very effective Debtor Realization Program for both the Domestic and International business. Monthly meetings are held by the CFO with the respective Business Heads to oversee the complete mechanism of Debtor collection.

2. **Foreign exchange risk**

We manufacture and sell our products in a number of countries throughout the world and as a result, are exposed to movements in foreign currency exchange rates. The purpose of our foreign currency hedging program is to manage the volatility associated with short-term changes in exchange rates.

Risk Mitigation

We propose to mitigate the currency exchange rate risk by using offset hedge. This will be an offset hedge designed to nullify the exchange rate risk arising out of the physical contract for import and the corresponding time mismatch. Each hedge transaction will be backed by a physical transaction (forwards/options). This is to fence in a normal profit margin.

3. **Long Term Loans Risk**

Here the company faces the risk of rupee depreciation Interest rate (LIBOR) increasing. The loans include long term loans which are the ECB's / FCNR availed by the company in the past and being repaid now in instalments.

Risk Mitigation

The Company has mitigated the loss by entering into Call spread options wherein the installments are hedged in a staggered manner i.e. year wise cover for the repayments based on the past experiences and the advice from Bankers and Forex consultants.

4. **Short Term loans Risk**

The short term loan of the company includes Packing Credit in Foreign Currency (PCFC) which is availed on purchase order basis or running account basis

Risk Mitigation

The Company normally hedges the PCFC availed under past performance in case the trend is of Rupee depreciation. In case of Trend of Rupee appreciation the Loan is kept open and on due date the exports proceed are used to pay off the Loan or the Invoices of similar rates are adjusted so as to minimize the risk.

The cost of borrowing in rupee is compared with the total cost of PCFC availed (i.e. the interest cost +spread + Hedging cost) and if the borrowing cost in rupee is more than the borrowing cost in PCFC, the company avails PCFC.

5. **Cost risk**

   The Company generally markets on a FIFO bases, leading to an accumulation of its inventory and resulting in a higher debt cost. Moreover, increased freight could dent profitability.

   Risk Mitigation

   Indoco has consistently been a branded player of quality pharma products and due to its established credibility it passes on this increased cost (freight and interest) to its customers.

iii. Sectoral Risks:

<u>Competition & other sectoral risk</u>

Many competitors with cheaper variants of pharma products can actually capture the market with lower price schemes. Even plagiarism in terms of packet design, brand name, etc. can dent the Company's bottom line to a great extent.

Counter campaigning and aggressive pricing by competitors (including e-commerce players buying sales through heavy discounting) have the potential of creating a disruption. New brands are being launched online. With increased online penetration distributor relationships may no longer remain a critical success factor. New products may not find very favorable acceptance by consumer or may fail to achieve sales targets. Acquisitions entail deployment of capital and may increase the challenge of improving returns on investment, particularly in the short run. Integration of operations may take time thereby deferring benefits of synergies of unification. Unexpected changes in commodity prices resulting from global demand and supply fluctuations as well as variations in the value of the Indian Rupee versus foreign currencies could lead to an increased cost base with a consequent impact on margins. Counterfeits, pass-offs and lookalikes are a constant source of unfair competition. Our business, financial condition, cash flows, results of operations and prospects may be materially and adversely affected if we are not able to maintain our market position, sustain our growth, develop new products or target new markets.

Risk Mitigation

The Company believes that in the long run, quality of medicines is the sole consideration of the consumers and has therefore never compromised on its Quality. The Company has strong focus on Research & Development, which enables it to introduce new varieties of pharma products. The Company has intensified its branding initiatives in recent years, to ensure a credible brand, which would differentiate the Company's top line even in a largely crowded pharma segment. The Company has a systematic insighting and new product development process that helps in increasing the chances of new product success. The Company contemplates acquisitions with a high strategic fit where it envisages a clear potential to derive synergistic benefits.

iv. Sustainability Risks:

ENVIRONMENT, SOCIAL AND GOVERNANCE RELATED RISKS AND THEIR MITIGATIONS:

Environmental, social and governance (ESG) are three central factors in measuring the sustainability and ethical impact of a company. ESG factors, though non-financial, have a material impact on the long-term risk and return of investments. Responsible investors evaluate companies using ESG criteria as a framework to screen investments or to assess risks in investment decision-making.

Environmental factors determine a company’s stewardship of the environment and focus on waste and pollution, resource depletion, greenhouse gas emissions, deforestation, and climate change. Social factors look at how a company treats people and focuses on employee relations and diversity, working conditions, local communities, health and safety, and conflict. Governance factors take a look at corporate policies and how a company is governed. They focus on tax strategy, executive remuneration, donations and political lobbying, corruption and bribery, and board diversity and structure.

Environmental risks created by business activities have actual or potential negative impact on air, land, water, ecosystems, and human health. The Company shall take proper steps for managing resources and preventing pollution, reducing emissions and climate impact, and executing environmental reporting or disclosure.

Social risks refer to the impact that companies can have on society. The Company shall undertake social activities such as promoting health and safety, encouraging labour-management relations, protecting human rights and focusing on product integrity. Social positive outcomes include increasing productivity and morale, reducing turnover and absenteeism and improving brand loyalty.

Governance risks are well taken care of. The rapidly changing legislative framework in India requires a very stringent compliance by corporate entities to the provisions of the Companies Act, 2013, Secretarial Standards, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, and various other regulations framed by SEBI on a regular basis, which provide stringent provisions including imposition of penalty and prosecution.

As such, compliance related risks have assumed high importance. In addition to these, there are several laws which govern the operation of any factory, and the Company is exposed to various compliances under the Factories Act, 1948, Pollution Law, etc. The Legal and Secretarial department shall review the legislative changes to ensure that the Company complies with the changing regulations as a constant monitoring process and in time. Timely publication of financial results, annual accounts, seeking various approvals from members etc. are also important aspects of Compliance Related risk.

Departmental Heads furnish compliance certificates regarding compliances of various Laws applicable to their departments, on quarterly basis, which are placed before the Board of Directors.

The Company's Code of business ethics is the key guideline for all employees. The Company is committed to high ethical standards and integrity in its businesses, preventing corruption and violations of the principles set forth in the code of business ethics of the Company. The Company’s top management has zero tolerance for corruption and fraud.

v. Information and Cyber Security Risk and its Mitigation:

Information (Data) and Cyber security risk is the probability of exposure or loss resulting from a cyberattack or and data breach on the organization. Organizations are becoming more vulnerable to cyber threats due to the increasing reliance on computers, networks, programs, social media and data globally. Data breaches, a common cyberattack, have massive negative business impact and often arise from insufficiently protected data. The proliferation of technology enables more unauthorized access to the organization's information than ever before. Third-parties are increasing provided with information through the supply chain, customers, and other third and fourth-party providers. The risk is compounded by the fact that organization is increasingly storing large volumes of personally identifiable information on external cloud providers that need to be configured correctly in order to sufficiently protect data.
Data breaches have massive, negative business impact and often arise from insufficiently protected data.

The following as potential targets under cyber security risk:
- Customer data
- Employee data
- Intellectual property
- Third and fourth party vendors
- Product quality and safety
- Contract terms and pricing
- Strategic planning
- Financial data

Measures for Risk Mitigation:

The Company shall take the following steps to mitigate the aforesaid information and Cyber Security risks:

Cyber security risk management is generally set by the management in the planning processes. The concerned personnel are made responsible for establishing and maintaining the enterprise vision, strategy and program to ensure information assets and customer data is adequately protected. The following are the steps shall be taken in this behalf:

- Administering security procedures, training and testing
- Maintaining secure device configurations, up-to-date software, and vulnerability patches
- Deployment of intrusion detection systems and penetration testing
- Configuration of secure networks that can manage and protect business networks
- Deployment of data protection and loss prevention programs and monitoring
- Restriction of access to least required privilege
- Encryption of data where necessary
- Proper configuration of cloud services
- Implementation of vulnerability management with internal and third-party scans
- Recruitment and retention of cybersecurity professionals

vi. Other Risk

a. **Product concentration risk**

About 20% percent of the Company's total domestic sales is derived from the sale of Cyclopam and Febrex. Concentration on a single product type can hamper the Company's sustainability in the long run.

Risk Mitigation

The Company manufactures and offers a large variety of pharma products indicating a wide product base. Indoco has also forayed into other value added products. This wide product integration coupled with diversified product offerings would enable the Company to mitigate the risk of product concentration.

b. **Derivatives Risk and its Mitigation**

Decision making matrix for undertaking hedging transactions

Structure of risk management operations:

1. Level I - nominated by Board of Directors -
   At present: - Managing Director and, Joint Managing Director of the Company
2. Level II -- nominated by Level I.
   At present:
   - CFO
   - AVP (Finance)

Role and responsibilities of board of directors

The main responsibility of the Level I is to recognise the core principles / policy for managing derivatives risk. Based on those core policies, the Level I takes the decisions & measures to be adopted and be implemented and followed by Level II.

Core Principles followed by Level I.

1. Establishment of effective policy for use with commercial objectives and risk appetite of the organisation
2. Approval for instruments to be used for Hedging.
3. Establishment of procedures of implementation of Policy by Level II.
4. Existing framework of proper supervision, internal controls and audits which to be deployed.
5. Establishment of framework of reporting, monitoring and control.
6. Legal Compliances
7. Reduction of volatility in earnings caused due to movement in market variables
8. Elimination of negative surprises that may affect the achievement of business objectives.
9. Building effective risk management practices to be geared toward sustaining and enhancing competitive advantage.
10. Assist in decision making processes that will minimize potential losses, improve the management of existing uncertainty
11. Evaluation of risks and their sensitivity to operations.
12. Identification of the tools to be used for insuring the risks
13. To improve financial risk awareness and risk transparency

14. Establishing the authority and responsibility structure for hedging

Level I's responsibility:

1. To analyse the Current Exposure of the Company & the risks that Organization is facing.
2. To approve hedging policies recommended by Level I.
3. To approve future options contracts and exchange brokers and counterparties.
4. Approve the responsibilities of Level II.
5. Level I shall continuously review the Policy on suggestions from level (II) and review risk identifications and analysis.
6. Level I shall ensure that adequate education is made available to key persons on fundamentals of derivatives.
7. Compliances with current and future legal requirements.
8. Level I shall review positions periodically
9. All hedging strategies and instructions proposed shall be in line with the Level I policies
10. To ensure all positions are based on underlying physical exposure i.e. only offset positions are undertaken.

Roles and responsibilities:

Level I - shall have day-to-day involvement in trades and future trades, advisory function and shall periodically review the following:

1. Risk management systems - recording and reporting.
2. Defining & Fine tuning the long and short term hedging strategies, rules, ratio, procedure and instruments to be followed.
3. To ensure that all hedging strategies are in compliance with the Board policies.
4. Ensure exceptional reporting to board and contingency plans in order to counter possibilities of any adverse developments.
5. Ensure regular development and education of Level II.
6. Ensure flow of procurement of raw material and management information.
7. Level I formally report to Board of Directors details on the implementation of the strategies and activities undertaken on a periodical basis.

8. Ensure that there is no breach of rules or exceeding of limits specified in the Companies Hedging Policy.
9. Ensure regulatory compliance, as per approval and prevailing RBI guidelines

Level – II

1. Generate various reports (detailed below) and manage the operational aspects of booking a trade.
2. Level II shall ensure compliance with all RBI regulations
3. MTM statements would have to be obtained from all banks at the beginning of every month
4. Level II shall be responsible for completion of all documents with bankers.
5. The trade confirmations shall be obtained for each trade executed within 3 days of execution of each trade

IV. MEASURES FOR RISK MITIGATION INCLUDING SYSTEMS AND PROCESSES FOR INTERNAL CONTROL OF IDENTIFIED RISKS:

The Company has adopted the Turnbull Risk Matrix framework (keeping good "internal controls" in the company, or having good audits and checks to ensure the quality of financial reporting and catch any fraud before it becomes a problem) for risk management. The matrix identifies all the major risk on standalone basis that is applicable to the Pharma business.
As a diversified enterprise, the company has always had a system- based approach to business risk management. Backed by strong internal control systems, the current risk management framework consists of the following elements:

- The Corporate Governance Policy clearly lays down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from the strategic to the operational is specified in the Governance Policy. These role definitions, inter alia are aimed at ensuring formulation of appropriate risk management policies and procedures, their effective implementation and independent monitoring and reporting by Internal Audit.

- A combination of centrally issued policies and divisionally - evolved procedures brings robustness to the process of ensuring business risks are effectively addressed.

- Appropriate structures have been put in place to effectively address the inherent risks in businesses with unique / relatively high risk profiles.

- A strong and independent Internal Audit Function at the corporate level carries out risk focused audits across all businesses, enabling identification of areas where risk managements processes may need to be improved. The Audit Committee of the board reviews internal Audit findings, and provides strategic guidance on internal controls.

The combination of policies and processes as outlined above adequately addresses the various risks associated with your Company's businesses.

The Company shall review the risk based control system and evolve a procedure for risk assessment and timely rectification which will help in minimisation of risk associated with any strategic, operational, financial and compliance risk across all the business operations. These control procedures and systems will ensure that the Board is periodically informed of the material risks faced by the Company and the steps taken by the Company to mitigate those risks.

Risk Management Committee of Board of Directors of the Company shall meet to identity risk faced by each department and steps taken by each department to mitigate the same so as to effectively address the emerging challenges in a dynamic business environment.

V. BUSINESS CONTINUITY PLAN:

A business continuity plan (BCP) is a document that outlines how a business will continue operating during an unplanned disruption in service. It's more comprehensive than a disaster recovery plan and contains contingencies for business processes, assets, human resources and business partners – every aspect of the business that might be affected.

Plans typically contain a checklist that includes supplies and equipment, data backups and backup site locations. Plans can also identify plan administrators and include contact information for emergency responders, key personnel and backup site providers. Plans may provide detailed strategies on how business operations can be maintained for both short-term and long-term outages.

A key component of a business continuity plan (BCP) is a disaster recovery plan that contains strategies for handling IT disruptions to networks, servers, personal computers and mobile devices. The plan should cover how to re-establish office productivity and enterprise software so that key business needs can be met. Manual workarounds should be outlined in the plan, so operations can continue until computer systems can be restored.

There are three primary aspects to a business continuity plan for key applications and processes:

High availability: Provide for the capability and processes so that a business has access to applications regardless of local failures. These failures might be in the business processes, in the physical facilities or in the IT hardware or software.
Continuous operations: Safeguard the ability to keep things running during a disruption, as well as during planned outages such as scheduled backups or planned maintenance.
Disaster recovery: Establish a way to recover a data centre at a different site if a disaster destroys the primary site or otherwise renders it inoperable.

VI. PRECEDENCE

In case of any subsequent changes in the provisions of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, Companies Act, 2013 or any other regulations, which makes any of the provisions in the Policy inconsistent with the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, Companies Act, 2013 or such other regulations, such provisions of the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, Companies Act, 2013 or such other regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law.