Aarti Pharmalabs Limited

Risk Management Policy

Compliance Department

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Policy effective from: January 30, 2023
Review periodicity: Need Base / Once in Three Year

INTRODUCTION

Aarti Pharmalabs Limited ('APL'/ 'Company') recognises that risk is an integral and unavoidable part of Company's business and is committed to managing the risk in a proactive and effective manner. The Company aims to use the risk management techniques to take better informed decisions and improve the probability of achieving its strategic and operational objectives.

CONSTITUTION OF RISK MANAGEMENT COMMITTEE

The Company has constituted a Risk Management Committee ('Committee') as mentioned below:

1. Chairman,
2. Vice Chairperson and Managing Director,
3. Managing Director,
4. Non-Executive Directors,
5. Independent Director

The members of the Committee shall meet twice a year and should submit a half yearly report to the Board for measures to be taken and approaches to be considered for mitigating the risk.

OBJECTIVE

The objective of the Risk Management Policy ('Policy') document is to ensure that the Company has a proper and continuous risk identification and management process. This process will generally involve the following steps:

- Identifying, ranking risks inherent in the Organisation's strategy (including its overall goals and appetite for risk);
- Selecting the appropriate risk management approaches and transferring or avoiding those risks that the business is not willing or competent to manage;
- Implementing controls to manage the remaining risks;
- Monitoring the effectiveness of risk management approaches and controls;
- Learning from experiences and making improvements.

TYPES OF RISKS

1. Business Risk

a. Competition Risk:

APL operates in a competitive market and expects competition to increase further in the future. To meet the competition, the Company always strives to meet the challenges by delighting customers with product quality, timely supplies, and best industrial practices in providing better services.

The Company also follows an aggressive pricing policy and follows the practice of giving special discounts to customers who purchase large volumes and have long term contracts. This is to reward customers who procure their requirements from the Company consistently over the long term.

b. Process Risk:

The Pharmaceutical business has a lot of inherent process risks. To ensure this risk does not arise, the Company is setting up its efforts for adopting greener, cleaner and safer manufacturing operations. The Company is also upgrading the level of automation in the existing processes thereby providing for a safer working environment.

c. Raw Material Procurement Risk:

The most significant risk for the Company is connected with the purchase of key raw materials. The domestic market is predominantly dependent on few manufacturers who operate at high capacities.

The Company has been discussing with the suppliers for giving preference to our supplies through some strategic arrangement. The Company may at suitable time also explore backward integration for part requirements, if it may be feasible.

Similarly, there are some seasonal bottlenecks in respect to purchase of few other raw materials, which the Company on regular basis mitigates through alternate sourcing arrangement or imports, if available.

d. Working Capital Risk:

The Pharmaceutical business is generally working capital intensive and hence the company's working capital requirements are higher. The Company's continuous effort to reduce overall working capital cycle and higher cash accruals will help to mitigate working capital risk.

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e. International Operations risk:

The inherent risks in conducting business internationally include:

- Country risk or risk of the region that we operate in, changes in political-economic conditions, laws or regulatory requirements
- Country specific tax obligations
- Trade barriers and import/export licensing requirements
- Burden of complying with various foreign laws
- Difficulties in managing and staffing international operations

To mitigate the above risks, the Company shall avoid high-risk countries and even if Company does business with such countries, the risk shall be minimized/ hedged out by routing the transactions through a third party/ by taking appropriate insurance etc.

f. Employee Turnover Risk:

The Company is dependent on principal members of the management team and scientific staff. Loss of services to these employees may adversely affect our business. Competition among the pharmaceutical companies for qualified employees is intense and the ability to retain and attract new talent is critical to our success.

To attract new talent and retain talent, the Company not only offers attractive compensation packages but also growth opportunities to its critical employees.

2. Financial Risk

a. Foreign Exchange Risk:

APL continues to expand its business globally. Some of its revenues and payments are in foreign exchange, which makes it crucial to monitor movements in the forex market. Managing the risks from foreign currency rate fluctuations, interest rate fluctuations is the prime function of our finance department.

It shall always keep a close watch on the forex market and its trend as also to review the movements regularly and hedge the risk with appropriate instruments.

b. Legal Risk:

The Company enters into many contracts with customers, lenders, suppliers and others. Legal risk is the risk that the organization may suffer financial loss either because contracts or individual provisions thereof are unenforceable or inadequately documented or because the

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precise relationship with the counterparty is unclear. To mitigate this risk, the Company engage legal counsel to go through the contracts and advise the Company before the same are entered into by the parties.

3. General Risk / Specific Risk to the Company and the mitigation measures adopted:

a. Business dynamics:

Variance in the demand and supply of the product in various areas. Based on experience gained from the past and by following the market dynamics as they evolve, the Company is able to predict the demand during a particular period and accordingly supply is planned and adjusted.

b. Business Operations Risks:

These risks relate broadly to the company's organisational structure and management, such as planning, monitoring and reporting systems in the day to day management process namely -

Organisation and management risks:

- Production, process and productivity risks,
- Business interruption risks,
- Profitability.

➢ **Risk mitigation measures**

1. The Company functions under a well defined organization structure.
2. Flow of information is well defined to avoid any conflict or communication gap between two or more Departments..
3. Proper policies are followed in relation to maintenance of inventories of raw materials, consumables, to ensure their availability for planned production programmes.
4. Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.

c. Market Risks / Industry Risks:

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time, interest rate risks
- Interruption in the supply of Raw material

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➢ **Risk Mitigation Measures**

1. Demand and supply are external factors on which the company has no control, but the Company plans its production and sales from the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of the company's products.

2. Proper inventory control systems have been put in place.

d. Credit Risks:

- Risks in settlement of dues by customers
- Provision for bad and doubtful debts.

➢ **Risk Mitigation Measures**

1. Systems put in place for assessment of creditworthiness of customers, including availed Credit Insurance for the Exports.
2. Provision for bad and doubtful debts made to arrive at the correct financial position of the Company.
3. Appropriate recovery management and follow up

REVIEW OF THE POLICY

This Policy will be reviewed and reassessed by the Committee as and when required and appropriate recommendations shall be made to the Board to update this policy based on changes that may be brought about due to any regulatory amendments or otherwise.