

HIKAL LIMITED

RISK MANAGEMENT POLICY

1. BACKGROUND

Hikal Limited provides solutions across the life sciences value chain. The company manufactures active ingredients, intermediates and provides R&D services to global pharmaceutical, animal health, biotech, crop protection and specialty chemicals companies globally.

The Company's performance is based on several known and unknown risks, uncertainties, and assumptions that are variable in nature. These risks and uncertainties include the financial health of the global and domestic economies, the performance of the industry in India and worldwide, external competition, regulatory risk, the company's ability to implement its strategy successfully, the company's future levels of growth and expansion, technological implementation, adverse changes in revenue, income or cash flows and its exposure to market risks, as well as other risks.

The Company believes that a formal and systematic approach to identifying and managing risk is instrumental to achieving its strategic objectives. Hikal considers risk management to be a crucial aspect to managing the company effectively and efficiently.

2. LEGAL FRAMEWORK

The SEBI (Listing obligation and Disclosure Requirements) Regulations 2015 has incorporated various provisions concerning the Risk Management policy, procedure, and practices for the listed entities. It is, therefore, required for Hikal Ltd. to frame and adopt a "Risk Management Policy".

3. PURPOSE AND SCOPE OF THE POLICY

This Policy's main objective is to ensure sustainable business growth with stability and to promote a proactive approach in reporting, evaluating, and resolving risks both internal and external which could affect the company's business. This Policy (**Annexure-1**) establishes a structured and disciplined approach to Risk Management to guide decision making on risk-related issues to achieve the critical objectives of the company.

The specific objectives of this Policy are:

- To ensure that all the company's current and future material risk exposures are identified, assessed, quantified, appropriately mitigated, and managed, i.e., to ensure adequate and robust systems for risk management

- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices
- To ensure business continuity and sustainable growth with financial stability

4. APPLICABILITY

This Policy applies to all locations and areas of Hikal's operations.

5. RISK MANAGEMENT COMMITTEE

The risk management committee comprises of:

Mr. Jai Hiremath,
Mr. Sameer Hiremath,
Mr. Kannan Unni,
Mr. Prakash Mehta

The Chief Internal Auditor is on the Risk Management Committee, acts as the Chief Risk Officer, and works closely with the Risk Management Committee and the Company's management.

6. RESPONSIBILITY FOR RISK MANAGEMENT

Risk Management Committee

- The Risk Management Committee reviews and approves the Company's Risk Management Policy and any associated frameworks, processes, and practices
- The Risk Management Committee ensures that the Company takes the appropriate measures to balance risk and reward in both ongoing and future business activities
- The Risk Management Committee has access to all relevant internal information necessary to fulfil its oversight role. The risk management committee also has the authority to obtain advice and assistance from internal or external advisors

Chief Risk Officer

- The Chief Risk Officer is responsible for assessing and monitoring risks that the Company could potentially face, providing recommendations for appropriate risk mitigation controls, and periodically briefing the Board of Directors about the various risk elements and solutions / mechanisms to minimise the same

Company's management

- The company's management will identify risks, develop risk mitigation plans, and implement risk mitigation strategies. Business Unit Heads will be termed as Risk owners for major risks, Department / Operation Heads for moderate risks, and Function/ Site Heads for lower risks. A risk owner is an accountable point of contact for an enterprise risk, who coordinates efforts to mitigate and manage the risk with various individuals (Risk Champions) who own parts of the risk
- All Organisation employees are responsible for the effective management of risks, including the identification and mitigation of potential risks.

7. RISK MANAGEMENT PROCESS

All the Senior Executives under the guidance of the Managing Director are responsible for viewing management's processes and results in identifying, assessing, and monitoring risk associated with the Organisation's business operations and implementing and maintaining policies and control procedures to give adequate protection against significant risk. The Risk Management processes mentioned below are in the sequence follows:

- Identify, assess and escalate risks impacting the objectives of the Company,
- Define measures to respond to the risks effectively,
- Monitor movement (if any) in the identified risks,
- Monitor effectiveness of existing risk management measures, and
- Report risks and risk management measures to the Risk Management Committee

8. TRAINING AND AWARENESS

The Board of Directors aims to ensure that:

- Emphasis is given on training of risk management
- All company employees are aware of and understand the organization's approach to risk management and mitigation
- All company employees in the organization understand the basic concepts and benefits of risk management in their respective areas and apply the principles of risk management in the day-to-day operations across all sites

For this purpose, the Chief Risk Officer, in association with the Risk Owners and Risk Champions, will conduct frequent and mandatory training programs on risk management so that each employee proactively contributes to managing risk effectively. External professional help shall also be taken where necessary

9. REVIEW

The company shall review this Policy periodically to ensure it meets the requirements of current legislation and the organization's future needs, and the review period will not exceed two years.

Hikal Limited Risk Matrix

A) Likelihood Parameters

Likelihood Scale	Rare	Unlikely	Possible	Likely	Almost Certain
	1	2	3	4	5
Likelihood / Probability	An event could occur (>95% probability) once in more than 5 years and <95% probability once in 5 years.	The event likely to occur once in 5 years. (>95% probability)	Event expected to occur once in 3 years (>95% probability)	The event may occur once a year. (>95% probability)	The event is sure to appear multiple times in a year.

B) Objective -Impact Matrix

Objective: **Financial**

Attribute	Event	Very Low	Low	Medium	High	Very High
		1	2	3	4	5
Revenue	Income shortfall (amount Rs in crores)	<5	5-10	10-25	25-40	>40
Contribution margin	Change in contribution margin (Deviation from budget)	5%	10%	15%	20%	25%
Revenue through the new products and customers	Failure to achieve the business target- Pharma	5%	8%	10%	12%	15%
	Failure to achieve the business target- Crop	20%	30%	40%	50%	60%

Objective: **Environment, Health, and Safety**

Attribute	Event	Very Low	Low	Medium	High	Very High
		1	2	3	4	5
Employee & Public safety	Accident severity rate	Minor injury	Major injury	Permanent disability	Employee or Public fatality	Employee or Public multiple fatalities/ property damage
Environment performance	Environment damage due to release of toxic gas or hazardous/ untreated effluents	Minor instance of environment damage that can be reversed	Isolated but significant instances of environment damage that could be reversed with intensive efforts	Significant instances of environment damage that could be reversed with intensive efforts	Major loss of environmental amenity and real danger of continuing	Severe widespread loss of environmental amenity and unrecoverable environmental damage
Environment performance-deviation from permissible limit	Water- COD	<5%	5%-10%	10%-15%	15%-20%	>20%
	Air- Nox, Sox, and suspended particulate matter	<5%	5%-10%	10%-15%	15%-20%	>20%
	Solid- Quantity of Hazardous waste	<5%	5%-10%	10%-15%	15%-20%	>20%

Objective: **Regulatory**

Attribute	Event	Very Low	Low	Medium	High	Very High
		1	2	3	4	5
Meet compliances	Severity of non-compliance	Insignificant legal, regulatory, or internal policy failure	Limited legal, regulatory, or internal policy failure	Major legal, regulatory, or internal policy failure (e.g., visit by regulators about non-compliance and reportable incidents)	Significant legal, regulatory, or internal policy failure (e.g., substantial financial, criminal penalties, not being able to do business in certain areas)	Suspension in the trading of the shares of the company/ manufacturing license

Objective: Competence and Skill Enhancement

Attribute	Event	Very Low	Low	Medium	High	Very High
		1	2	3	4	5
Employee confidence	Employee dissatisfaction	Modest increase in grievances	Increase in grievances and could not maintain certification for "Great place to work"	Sharp increase in grievances	Departure of key staff with scarce skills or knowledge	Widespread departure of key staff with scarce skills or knowledge

Objective: Employee retention

Impact Scale	Event	Very Low	Low	Medium	High	Very High
		1	2	3	4	5
Employee retention	Retention rate is low	>95%	90%-95%	85%-90%	80%-85%	<80%

C) Prioritisation of Risks

Likelihood	Impact/ Consequence				
	1 Very Low	2 Low	3 Moderate	4 High	5 Very High
5 Almost certain	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Rare	1	2	3	4	5

High Risk (15-25)	The process, task or activity in question must not occur or must cease until actions are taken to eliminate the hazard or minimise the risk. The BU Heads overseas action plans and receives reports on progress. Specific consideration of control effectiveness and new or addition control options to be considered
Moderate Risk (8-12)	Actions are to be taken to eliminate the hazard or minimise the risk. Operation/ Department Heads overseas action plans and receives reports on progress. Periodic consideration of control effectiveness and new or additional control options to be considered
Low Risk (1-6)	Actions are to be taken to eliminate the hazard or minimise the risk. Site Heads/ Function Heads overseas action plans and receives reports on progress. Periodic consideration of control effectiveness and new or additional control options to be considered