AKUMS DRUGS & PHARMACEUTICALS LTD.

FOREIGN EXCHANGE RISK MANAGEMENT POLICY

AKUMS DRUGS & PHARMACEUTICALS LTD.

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Preamble to the Policy

- AKUMS Drugs & Pharmaceuticals Limited and its subsidiaries (AKUMS Group) have significant imports and Exports. While the imports mainly pertain to API and Capital Goods, the exports of pharma products are done by Unosource Pharma Limited predominantly.

- The policy covers the risk management of Forex Exposure that AKUMS is exposed to owing to the volatility in the currency market and global interest rates.

- Initially, this policy shall apply to Imports done by AKUMS Group and based on the performance review of this policy, its extension to Exports to Unosource shall be considered by September 2022 through operation of Dollar Account with a Bank.

- This Forex Risk Management Policy lays down its objectives of Forex risk management, the risk management organization structure, the benchmarks to measure performance, operational processes to identify, measure, monitor and manage Forex risks, appropriate control parameters and MIS reporting for the Forex Risk Management function.

- As per the RBI Guidelines, any entity desiring to enter into derivative transaction needs a Risk Management policy approved by its Board of Directors. This policy will act as a framework and enable AKUMS to meet the necessary requirements of RBI as well.

Forex Exposure Classification

AKUMS is exposed to Forex Risk as its imports, mainly denominated in USD, are subject to fluctuations owing to the volatility in currency market. The other major details are as follows:

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- Mode of Import: Imports are LC backed or against DA, with Usance of generally upto 90 Days.
- Banks : Major banks handling transactions are Citibank, IDFC, Yes Bank and SBI, HSBC

Risk Management

a) ***Objectives of Risk Management***

AKUMS Risk Management philosophy would be risk mitigation through a policy of *"Selective Hedging"* of exposures. The broad objectives of the policy lay down with respect to Management of Currency risks would be:

- To manage risks to the budgeted costs and revenues from the adverse impact of currency fluctuations.
- To reduce the Rupee cost of the Company's foreign currency payables by selective hedging of exposures.
- To achieve results better than what would result from a passive, automatic 100% hedge policy.
- To reduce transaction costs and bank exchange margins to bare minimum at the company level, across all business units, through effective negotiation with banks.

b) ***Management of Exposure:***

The exposures at AKUMS shall be managed on a Gross Basis in accordance with the various parameters defined in the Currency Risk Management Policy of AKUMS.

The Treasury Desk will Monitor and Manage currency exposures on transaction basis but taking the hedging instruments for the same will be done on a Portfolio basis (bulk cover may be taken and individual exposures would be allocated to the cover), so as to derive the benefit of economies of scale.

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c) Recognition of Exposure:

Recognition of exposure refers to identifying the forex risks associated with the said exposure. Recognizing the fact that company is exposed to the risk of exchange rate fluctuation and the *timing of the recognition* is of utmost importance to the success of the risk management process. Once the forex exposure is recognized, the onus of risk management shifts to the finance/Treasury department.

AKUMS shall recognize the currency risk associated with its import orders at the Order stage. i.e. date of placing of order. Therefore, the date on which the Import Purchase Order is entered in SAP system and on this date, the exposure shall be deemed to be transferred to Treasury / Finance Function for management of the exposure.

The Purchase Dept. shall provide the list of import purchase order with PO amount details on a weekly basis to Treasury Section.

d) Benchmarking of Exposure:

Benchmarking could be defined as setting the target exchange rate for transactions. The target rates would then serve as yardsticks for performance evaluation. In fact without proper benchmarking, it becomes very difficult to evaluate the performance of the risk management process. The main task in the process of benchmarking is to decide upon the target rates to be achieved on exposures.

AKUMS for the purpose of currency risk management shall consider the First Day Forward Rate (FDFR) from the date of order till date of payment as the benchmark rate for Import exposures. This will factor the number of days from order to opening of L/C to shipment and also the applicable Usance period.

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For example: *AKUMS* places an import order of US $ 5 lakhs on 1st August, 2022. On 5th August the L/C is opened and on 30th August the shipment is done and the due date for payment is 90 days from the shipment date. i.e. 30th November, 2022. Let us suppose that the closing Spot Rate on 1st August 2022 is Rs. 80.00 and premium prevailing till 28th February, 2022 is 120 paisa. Hence, the benchmark for this exposure would be 81.20 levels.

The benchmarking would work on the transfer pricing. i.e this will be the rate at which the purchase department will transfer the exposure to treasury.

e) Boundary Setting:

a. Stop Loss Strategy:

AKUMS operates on an average margin, so it's important not only to have a benchmark rate but also equally important to have a stop loss strategy. Stop loss levels will restrict the loss on open positions in case the market variables move adversely. It is an important tool of risk management, whereby the risk management team recognizes that its view has gone wrong. Having done this, treasury takes an immediate action to cut short its losses instead of running the positions and entailing deeper losses.

AKUMS shall consider 1.50 % from the benchmark level as the Stop Loss Level for Import exposures. It is to be noted that in case of percentage to benchmark method, the stop loss in value basis would be different for each transaction Hence, it is more dynamic in nature and appropriate to adopt the percentage to benchmark method to be in line with the vibrant currency markets.

AKUMS to follow either of the below mentioned strategy based on recommendation of Foreign Risk Management Committee (FRMC).

a) The treasury shall keep two stop loss levels for all exposures whereby at 1% stop loss they shall internally discuss on the action plan and on triggering of the upper stop loss level of 1.5%, the entire open exposure shall be compulsorily covered.

b) In this case, at 1% stop loss the treasury shall cover 60-70% of the open exposures and on triggering of 1.5% stop loss the balance open exposure shall be compulsorily covered.

For Example: Let us assume that the benchmark rate is Rs. 80.00 for an import transaction. Considering the stop loss at 1.5 % above the benchmark rate, the stop loss levels would be Rs. 81.20. In case the rupee moves above 81.20, AKUMS would cover the same immediately to prevent further losses.

b. Take Profit Policy

Similar to a stop loss level, a take profit level would ensure that the gains are booked at appropriate intervals and levels. Take profit levels would put a monetary cap to the greed levels and see to it that MTM profits are not diluted by a reversal.

AKUMS shall consider 1.5 % from the benchmark level as the Take profit Level for Import exposures.

For Example: Let us assume that the benchmark is Rs. 80.00 for an import transaction. Considering the take profit at 1.5% below the benchmark rate, the take profit levels would be 78.80 (spot rate plus applicable forward premium till the payment date). In case the rupee moves below 78.80, AKUMS would cover the same immediately rather than taking further risk for better rates in the volatile market.

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P.S: The take profit and stop loss levels for each of the exposures would be defined immediately as and when the benchmark is fixed.

c. **Core Coverage:**

Core cover is defined as the minimum exposure which needs to be covered at any point of time. Core cover could be defined in two manners. It could either be placed in terms of number of day exposure or as a percentage of total exposure.

The methods are enunciated as follows:

- Number of day exposures

  A management decision to hedge all its imports falling due within a month's time could be an example of core cover in terms of time.

- Percentage of exposures

  A management decision to keep 'x' % of its exposures covered at any point of time could be an example of core cover in terms of percentage of exposure.

AKUMS shall keep at least 25% of their total import exposure always covered.

Hedging

Hedging is primarily a function of the Benchmark rates. However, in order to optimize the gains by taking a calculated risk, AKUMS could take a view based approach to decide on the hedge amount. Further, utmost care should be taken that the above mentioned parameters of benchmark, stop loss, core cover etc are not violated in the process of hedging. Below mentioned are the guidelines which need to be adhered to while hedging:

A) Authorized Instruments

The risk management policy authorizes AKUMS to use Forward Contracts to hedge their currency risk on trade exposures:

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B. Authorized Personnel:

In order to ensure authority / responsibility criteria are adhered to in execution of transactions, specific limits have been assigned to various persons. To maintain a balance between autonomy and controls, appropriate authority is given in the matrix below so that no person at any point of time, whether knowingly or unknowingly, exceeds his / their authority. For this purpose, CFO or DGM/GM Treasury can enter into forward contract with the bank thru which the payment against the exposure is to be made. The hedging can be done in the currency of exposure only and the maturity of hedge should not exceed the underlying exposure due date.

Monitoring & Revaluation:

Monitoring of the hedged positions would be done on an ongoing basis. Once the hedge is initiated the same would be monitored based on MTM valuations on a weekly basis

- **Reporting & Control:**

A system of enforcing checks and controls on the risk management process are essential to ensure the continuing success of the treasury function. The first step towards the same would be to set up a Forex Risk Management Committee (FRMC).

A Forex Risk Management Committee should be set up for reviewing the treasury and forex operations.

The set up of the Forex Risk Management Committee (FRMC) would comprise of the following members: -

Mr. Sanjeev Jain, Mr. Sandeep Jain, Chief Financial Officer , DGM / GM - Treasury

The FRMC shall review the performance of treasury on a monthly basis for which the treasury function shall circulate the status of its performance vis a vis the benchmark rate

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