THE RISK MANAGEMENT POLICY

INDOCO REMEDIES LTD

Background

INDOCO REMEDIES LIMITED promoted by Late Shri Govind Ramnath Kare was established in 1947. The company has manufacturing facilities to produce Pharmaceutical Products like API and Finished Formulations at the Eight units located spread across the country.

Production Facilities
Verna Indl Estate, Goa
Vill : Katha, Baddi
Rabale TTC Area, Navi Mumbai
MIDC, Waluj, Aurangabad
MIDC Indl Estate, Patalganga, District: Raigad

R&D Centre:
Rabale TTC Area, Navi Mumbai

This Policy is in compliance with clause 49 of Listing Agreement, which requires the Company to lay down procedures about the risk assessment and risk minimization.

i. The Board of Directors of the Company and the Audit Committee of Directors shall periodically review the risk management policy of the Company so that management controls the risk through properly defined network.
ii. Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and the Audit Committee.

Commitment to Risk Management

Indoco Remedies Limited ("**the Company**") is committed to ensuring that all staff, particularly those with management responsibilities, have a sound understanding of the principles of risk management. The Company recognises that risks are inherent in any business activity, that there is a place for responsible risk taking, and that its risk management framework needs to support the Company in managing risks appropriately given the nature of its business.

Responsibilities

The Board is responsible for overseeing the establishment and implementation of the Company's risk management system and to assess for itself, at least annually, that the system is operating effectively.

The Audit and Risk Committee of the Board has specific responsibility in the area of risk management. It advises the Board on the appropriateness of a risk management policy and oversight structure and reports on matters of concern raised by management and internal and external auditors.

Senior Management is responsible for implementing the risk management policy, reviewing and assessing its effectiveness on a regular basis and reporting to the Audit and Risk Committee and the Board on major risks and action plans.

All staff have a responsibility to identify, assess, manage and report risks to management within their areas of operation.

Risk identification

The Company will continue to identify areas of risk. These may be risks specific to particular products or projects, including:

1. the safety and efficacy of particular products;
2. changes in competitors' products and research and development programs;
3. changes in market demand and market prices for comparable products; and
4. changes in legislation and policy affecting approval for new products and reimbursement.

The risks may also affect the Company as a whole. These risks include:
1. economic outlook and sentiment, share market activity;
2. changing government policies in the jurisdictions in which the Company operates;
3. legal proceedings commenced against the Company (if any);
4. ethical issues with respect to pharmaceutical research and development;
5. government regulation including in the area of therapeutic products; and
6. occupational health and safety laws.

Senior Management will continue to review and report to the Audit and Risk Committee and the Board on a regular basis:
1. the major risks relevant to the Company's business;
2. the degree of risk involved – what are the probabilities that the risk will materialise? If it does, what is the significance of the potential impact?
3. current approach to managing the risk; and
4. if appropriate, any inadequacies in the current approach and possible improvements to more effectively address the risk.

Nature of risks involved in the business activity:

1. Risks and Concerns

Competition risk
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.
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.

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.

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.

Quality risk
Highest quality parameters are a must for any pharmaceutical related business and any negligence in regard to the same could lead to severe consumer attrition and legal cases.
Risk mitigation
The Company ensures the conformance to the highest quality standards coupled with fully automated and hygienic production units, laced with adequate and comprehensive quality checks, resulting in superior products. The quality of the Company's products has not only led to better acceptance in even the fiercely competitive markets; but also has resulted in high repeat business on account of increased customer loyalty.

Raw material risk
Non availability of good quality raw material could negate the qualitative and quantitative production of pharmaceutical products.
Risk mitigation
The Company procures its raw material both locally and internationally on a sustained basis and based on strict quality norms on account of its large capacities and timely payments.

These measures have enhanced the Company's ability to increase its raw material availability.

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.

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
At Indoco all revenue exposures are hedged to the maximum extent.

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.

The Company has adopted the Turnbull Risk Matrix framework for risk management. The matrix identifies all the major risk on standalone basis that is applicable to the Pharma business.

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:
   - President (Finance)
   - AVP (Finance)
   - Asst. Manager
   - Sr. Executive

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 of level – I

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

Roles and responsibilities of 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

Insurance

We self-insure for most insurable risks. However, we purchase insurance for Directors and Officers Liability and certain other coverage in situations where it is required by law, by contract or deemed to be in the best interest of the Company.

Other risks

Apart from the risks mentioned above, the Company's business is exposed to other operating risks, which are mitigated through regular monitoring and corrective action.

2. Risk Management System

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 consist 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.

Monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.

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

The senior management of the Company periodically reviews the risk management framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.