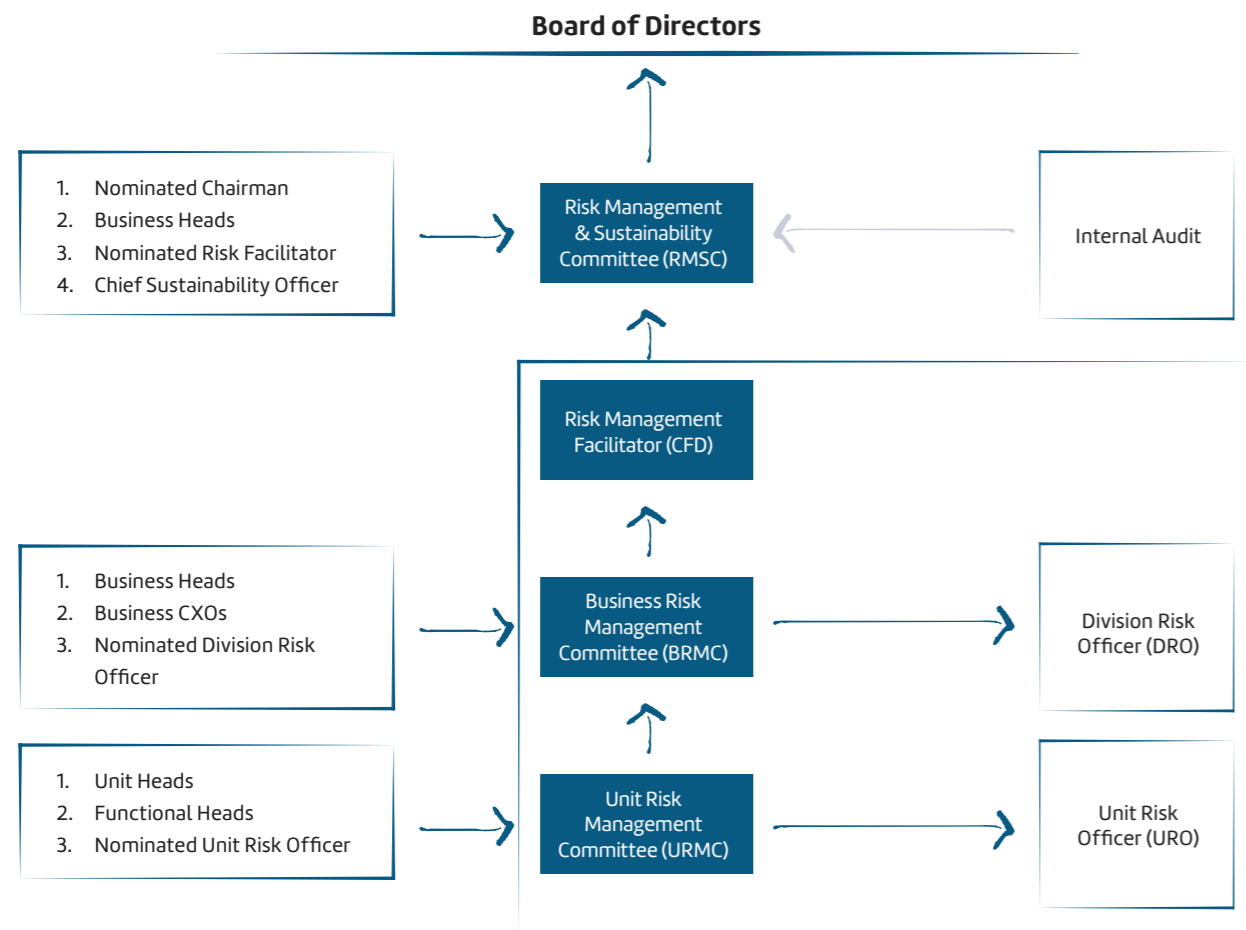


# Managing Risks, Improving Performance

At Grasim, we continuously foster risk management to identify and address potential threats and opportunities that may impact our commitments.

We operate in a dynamic business landscape, and the current volatile scenario requires a structured Enterprise Risk Management (ERM) process to ensure that the Company's risks are known and well-managed. We recognise that risks are inherent in businesses, and risk management is important to any business activity to achieve the goal of value creation for all its stakeholders. We have a comprehensive Enterprise Risk Management Framework to help us manage various risks which the Company may face. It comprises various steps viz. risk identification, evaluation, mitigation, monitoring, and reporting. Periodic reviews are conducted internally by the management, and key risks are presented to the Risk Management & Sustainability Committee of the Board for its review and guidance to the management.

## RISK GOVERNANCE STRUCTURE



## SUMMARY OF KEY RISKS IDENTIFIED

### Strategic Risk

Increased imports can affect demand and prices impacting margins



### Mitigation Plan

#### VISCOSE

- Exploring new markets and improving penetration in existing markets.
- Creating demand through consumer and trade Education and increasing awareness through branding and communication
- Increasing specialty products portfolio
- Continuously focusing on R&D and application development/new product development

#### CHEMICALS

- Increasing customer base and retaining market share by targeted customer centric approach.
- Seeking safeguard protection through Industry Associations

Increased competition may result in loss of market share and impact margins



- Expanding capacity to meet growing demand and maintain market share.
- Taking strategic initiatives and making continuous investments to enhance the brand equity of the products by focusing on R&D, quality, cost, timely delivery, and customer service. Increasing level of customer engagement
- Implementing customer-connect initiatives to reach out end users (such as Liva brand for VSF)
- Developing various customised products for customers
- Entering into Long-Term Contracts to secure sales volume

New businesses' performance may be at deviation from the plans



- Business strategy has been formulated and reviewed at different levels
- Competent business teams are hired and required support is provided for successful implementation of the plans
- Intense market research carried out in the new lines of business and considered during planning
- Business plans and industry landscape is continuously scanned and necessary actions being taken accordingly
- Leveraging supply chain/brand image of Grasim
- Strong parentage to support any exigencies

## Operational Risk

Availability of natural resources-based inputs: Scarcity of water may impact business operations in Viscose and Chemical Businesses

Scarcity of coal driven by high consumption in key user industries may increase the prices impacting manufacturing cost adversely



### Mitigation Plan

- Continuous reduction in freshwater consumption by applying the 3R Principles (Reduce, Reuse, Recycle)
- Zero liquid discharge plans under implementation across plants
- Creating new reservoirs closer to plant locations
- Government taking various measures viz. auctioning of coal mines to private players, removing bottlenecks for coal mining and transportation and soft demand for coal globally to improve supply of coal
- Entering long-term contracts, securing coal supplies at competitive prices
- Increasing share of renewable energy consumption in the manufacturing process
- Optimising the fuel mix and energy efficiency

Information technology/ Cybersecurity risk: There is an inherent risk of errors, bugs, or security vulnerabilities in products and internal systems which may lead to financial loss, disruption or damage to company reputation. There can be deliberate and unauthorised breaches of security to gain access to information systems.



- Implementation of Group-level Information Security policy
- Backup being done as per policy and disaster recovery system is in place
- Systems are upgraded regularly with latest security standards. For critical applications, security policies and procedures are updated on a periodic basis and users educated on adherence to the policies so as to eliminate data leakages
- Ensuring End user awareness (E-Learning Module and Classroom Programme). Phishing campaigns are conducted to improve vigilance and user behaviour
- Annual security assessments of IT/OT networks
- EDR (Endpoint Detection and Response) for Advanced Threat Hunting, Threat and Vulnerability Management, Attack Surface Reduction and Security Orchestration, Automation and Response (SOAR) for Endpoints
- Vulnerability Assessment and penetration testing to assess security risk of critical IT systems
- Regular patching, anti-virus update and stringent access controls
- Cyber Insurance Policy taken to cover financial losses resulting from cyber events and incidents

High volatility in global prices of input materials and products



### VISCOSE

- Securing the supplies of the key raw material by setting up captive caustic soda and pulp plants
- Exploring new sources and better negotiation including centralised negotiation
- Focusing on cost reduction and higher efficiency on regular basis

### CHEMICALS

- Securing the supplies of key raw material (Salt) by improvising on the sourcing mix between captive and third party
- Increasing portfolio of value-added products and specialty chemicals
- Focusing on cost competitiveness to reduce operational cost

### SPECIALITY CHEMICALS

- Annual index-linked price contracts with bulk manufacturers
- Diversifying supplier base
- Opportunity-based spot purchases
- Setting up ECH project for backward integration

### TEXTILE

- Procurement of imported wool against confirmed customer orders
- Reducing inventory holding to mitigate price fluctuation risk

## Operational Risk

Energy-intensive operations: Power-related risk (Reliability and cost)

- Power is the major cost in Chemical business contributing to ~70% of the variable cost
- Lower availability of captive/exchange power leading to high power/steam cost



Demand supply mismatch of chlorine: Lower consumption of chlorine may adversely impact caustic production



Industrial safety, employee health, and safety risk: The manufacturing businesses employ labour and are exposed to health and injury risk due to machinery breakdown, human negligence, etc. The Chemicals business has exposure to risks arising from the production and handling of hazardous chemicals



Competent human resources availability risk: Attrition and non-availability of the required talent can affect the performance of the Company



### Mitigation Plan

- Minimising reliance on grid/energy exchange by setting up captive power plants
- Securing coal linkage for assured supply
- Increasing share of renewable power and use of biomass/lignite, etc. to reduce carbon footprint as well as operating cost
- Use of energy-efficient equipment
- Availing power rebates wherever applicable to reduce cost

- Full capacity utilisation of chlorine derivatives
- Increasing existing chlorine derivatives capacities, new chlorinated products development, increasing pipeline supply, ancillary industry development, etc. being planned to increase chlorine integration

- Development and implementation of critical safety standards / SOPs across the Units and Project sites, establishing processes for training-need identification at each level of employee, introduction of 'Life Saving Rules'
- Continuous focus on building of safety culture across units covering entire workforce
- Adequate Insurance Coverage
- Safety KRA introduced for all line managers
- Continuous Safety Awareness campaigns/ trainings/ mock drills conducted; regular internal and external safety audits done
- Virtual reality training module to train drivers on logistics safety initiated

- Continuous benchmarking of the best HR practices across the industry and carrying out necessary improvements to attract and retain the best talent
- Regular review, monitoring, and engagement on personal development plans of high performers and high potential employees
- Proactive action to strengthen technical and other functional bench strength by mapping internal/external talent market and accelerated hiring
- Focused talent development. Ring fencing/retaining critical talent by providing adequate rewards and recognition

## Compliance Risk

The Company faces various litigations, legal proceedings, notices and threats etc. If these have any unfavourable outcome, it may have an adverse financial impact



### Mitigation Plan

- Compliance to all laws, rules and regulations and contractual obligations
- Legal compliance monitoring system has been implemented
- Effectively handling case with relevant authorities and following due legal course of action
- In house legal experts as well as consultation with external experts
- Compliance audits are regularly being undertaken

## Financial Risk

Investments impairment risk: Business performance of subsidiary companies and other investments could give rise to impairment charges in the future



- Investments are reviewed regularly and corrective actions are supported
- Impairment testing done periodically and impairment charge taken wherever required

Foreign exchange fluctuation risk



- Exhaustive forex hedging guidelines in place and being followed
- Hedging contracts entered centrally, exposures and hedging level monitored regularly

Liquidity risk/interest rate risk



- Maintain best credit rating and strong balance sheet
- Maintain sufficient unutilised credit limits with banks and other lenders
- Maintain adequate liquidity which can be redeemed as per requirement
- Regular review of cash flows and working capital optimisation
- Funding options through a mix of different debt instruments
- Short-term funding through competitive CP issuance
- Long-term funds tied up and sourced for capex financing

## Emerging Risk

Climate changes may lead to increase in frequency and severity of natural disasters (for e.g. drought, floods, cyclones)



### Mitigation Plan

- Identifying and implementing green technologies and developing sustainable products e.g. LivaEco
- Implementing closed-loop technology, leading to reduced air and water emissions, improved working ambience, lower raw material consumption
- Ramping up use of renewable sources of energy for Company's operations
- Commitments to comply with the global environmental and sustainability norms
- Vulnerability study is conducted for natural calamities and required protective measures are initiated (e.g. raising boundary wall in flood-prone sites)
- Adequate Insurance Coverage to cover financial loss caused from natural calamities

Environmental and other regulatory risks (including compliance): Any default can attract penal provisions and may impact the company reputation. Increased activism by society/NGOs could also impact reputation



- Adherence to regulatory norms is being ensured
- Technology/equipment upgradation is done on a continuous basis
- Continuous monitoring of regulatory changes to ensure compliance with all applicable statutes and regulations
- Implementation of various sustainability initiatives such as Zero Liquid Discharge
- Commitments to comply with the sustainability goals and meet international norms
- The community engagement programmes, the grievance management procedures, transparency in declaring our policy and performance and a series of corporate social responsibility programmes are put in place to improve our relations with community and for partnering with them for supply of materials and services

## INTERNAL CONTROL SYSTEM

Grasim has well-established and robust internal control systems in place commensurate with the nature of its businesses, size, scale, and complexity of its operations. The internal control systems cover all business processes and are operating effectively.

We have well-laid organisational structure with clearly defined roles and responsibilities. The structure is well institutionalised, and the systems and procedures are periodically reviewed to keep pace with the growing size and complexity of your Company's operations. For various financial and commercial operations, Standard Operating Procedures (SOP) are in place and have been designed to provide

reasonable assurance. We have carried out the evaluation of design and operating effectiveness of the internal controls to ensure adherence to the SOPs and noted no significant deficiencies/material weaknesses.

In addition to the above, internal audits are undertaken on a continuous basis by reputed internal audit firms covering all units and business operations periodically to validate the existing controls independently. Internal Auditors directly report to the Audit Committee of the Board. The Audit Committee reviews the Internal audit programme at the beginning of the year to ensure that the coverage of the areas is adequate.

The management regularly reviews Internal Audit Reports, and corrective actions are initiated to strengthen the controls and enhance the effectiveness of the existing systems. The Audit Committee reviews significant audit observations along with the status of management actions and the progress of implementation of recommendations.

The Audit Committee also reviews the adequacy and effectiveness of internal control systems periodically and provides guidance for further strengthening them.