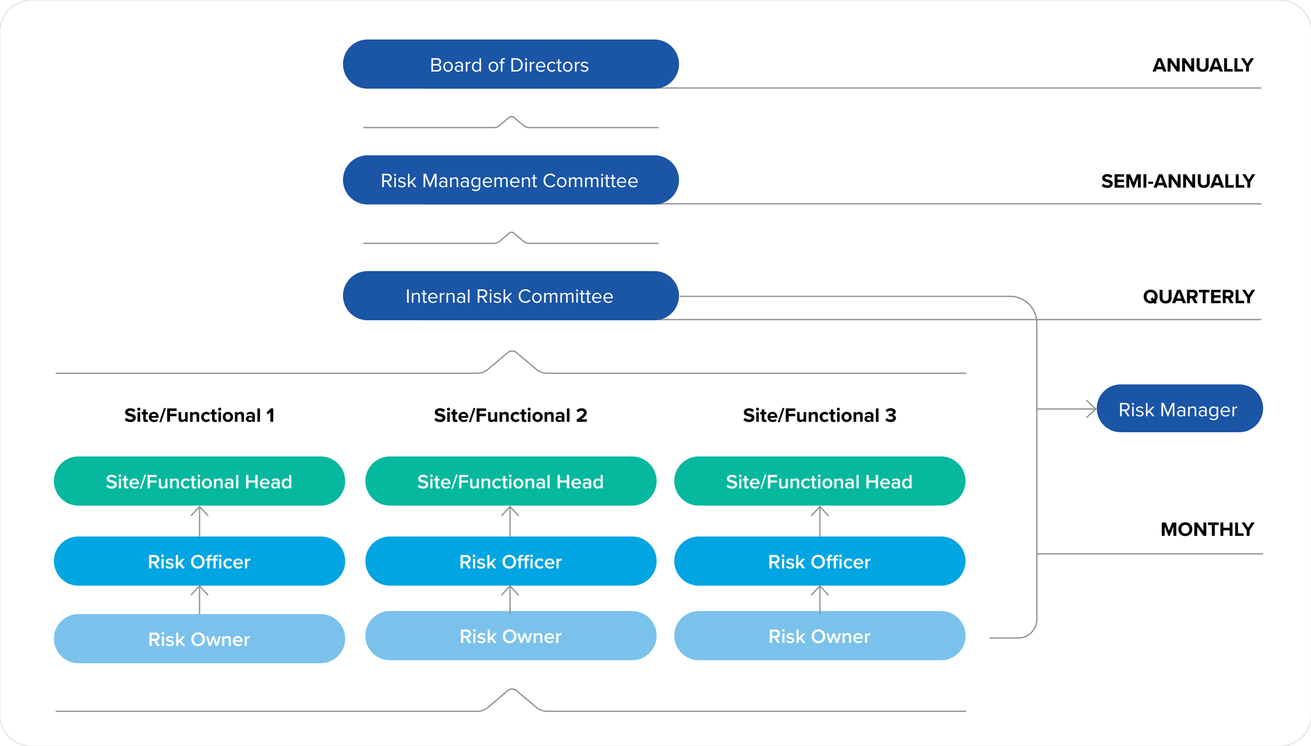
Risk Management

Managing Risks with Prudence

At Granules, we recognize the importance of a robust risk management system that aligns business decisions with identified and emerging risks. Our risk management policy and framework provides a comprehensive view of our risk exposures and facilitates proactive mitigation.

A holistic enterprise risk management (ERM) program facilitates identifying, assessing, and prioritizing enterprise risks across our sites and functions. We have developed risk repositories for each site and function, based on which the enterprise risks are identified and prioritized for effective and timely risk mitigation. Our ERM program aims to minimize and mitigate potential internal and external risks to achieve strategic objectives and explore opportunities in a risk-informed manner to protect and enhance value. Risk management is viewed as an integral part of our business. Constituent committees and risk practitioners have roles and responsibilities defined to promote accountability for risk management across the organization.

Risk Governance at Granules



The risk governance structure facilitates a combination of a top-down and bottom-up approach to risk management permeating the organization. The leadership team identifies and assesses long-term and strategic risks, informed by internal and external perspectives, in consideration of business priorities and objectives.

The Risk Management Committee (RMC), a sub-committee of the Board, guides the implementation of the risk management policy, reviews the effectiveness of the risk management system, and evaluates the enterprise risk profile. We update the Board of Directors and take inputs on the risk profile and mitigations for identified enterprise risks.

To ensure a focused and cross-functional approach to risk mitigation, an Internal Risk Committee is set up that meets and deliberates on identified enterprise risks every quarter, in addition to external events and their potential impact on GIL's operations. The Internal Risk Committee (IRC), comprising senior executives and functional heads, undertakes a detailed review of the enterprise risks, whereby response plans and key risk indicators (KRIs) are tracked and reviewed for status evaluation and actions identified in case of breach of KRIs. IRC and RMC also assess and evaluate the impact of internal and external events (e.g., geopolitical developments/ Red Sea Crisis) and the adequacy of associated mitigation plans as part of the risk reviews.

The CFO and the Risk Manager facilitate ERM initiatives across the Company and coordinates with site and functional heads for key enterprise risks and associated response plans. The CFO and the Risk Manager, supported by the ERM Coordinator, ensures the implementation of the ERM program across the sites and functions and aggregates the enterprise risk register.

Risk officers are nominated for each site and function, to ensure risk ownership is embedded. These officers support risk management activities within their respective sites and functions. Risk officers promote focused discussions on identified risks related to their assigned processes, and periodically assess and monitor the risks and associated response plans.

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Risk Management Process at Granules

The risk management framework adopted by Granules aligns with the ISO Standard 31000:2018 Risk Management – Guidelines and COSO 2017, which integrates strategy and performance. We evaluate risks regularly to implement necessary countermeasures on a timely basis. The framework enables the identification of a broad spectrum of risks, including sectoral (industry risks), sustainability, extended enterprise, talent, and cybersecurity risks, and links risk data at different levels through key risk indicators (KRIs), thereby facilitating monitoring and reallocation of resources to mitigate enterprise risks. Based on the International Integrated Reporting Council's (IIRC) six capitals, we have also defined our risk appetite with tolerance limits to assess the impact of risks in achieving our strategic objectives and guiding management decision-making.

Scope, Context and Criteria for Risk Management

Evaluate Granule's business context, i.e., internal and external environment, to assess potential risks and establish risk appetite for measurement.

Risk Identification

Identify a comprehensive list of risks based on events that may impact the achievement of business objectives.

Risk Analysis, Evaluation and Prioritization

Evaluate and assess the potential impact, likelihood, and velocity of the identified risks and prioritize risks based on criticality to identify enterprise risks.

Risk Response

Plan and implement risk response plans and applicable strategies based on risk profile assessment.

Risk Monitoring and Reporting

Monitor risk statuses periodically with the changing external environment and report enterprise risks periodically to evaluate the progress of response plans.

Indicative Enterprise Risks Themes

The enterprise risks are reviewed periodically by the constituent committees within the organization The following list illustrates the enterprise risks we identified impacting our operations and strategic objectives. Accordingly, we have implemented appropriate response plans:

Compliance to Quality Guidelines and Standards

We have exhibited a proven ability to maintain and strengthen regulatory and compliance systems to ensure conformance with mandatory quality standards and efficacy while ensuring all-time audit readiness across the organizational sites. We have directed our response strategy towards strengthening the culture of all-time audit readiness through planned initiatives across our sites.

We are ensuring the implementation of stringent quality review mechanisms and that we roll out suitable corrective and preventive actions for deviations observed thereon. Our emphasis is on enhancing our existing pool of skill competencies for critical quality assurance and control activities, including investigations, through periodic training.

Health and Safety Risks

Occupational safety hazards arise from non-adherence to safety procedures by employees and/or contractual workforce and the need to embed and sustain a safety culture across the organization. Our corporate EHS function and site EHS teams ensure we implement robust EHS management procedures and guidelines. Various projects are underway to strengthen the safety culture, including implementing the 'Safety Performance Index,' which involves training site personnel of site leadership teams and ownership of safety. Additionally, we conduct site-wise safety observation inspections (SOIs) to identify any safety-related deviations and monitor timely actions during lean development meetings (LDMs).

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Cyberattacks (Malware, Phishing, and Ransomware), Security Breaches of IT and OT Systems, Data Protection and Privacy Controls

The Company encountered a cyber-attack related to information security on May 24, 2023 (from now on referred to as the 'incident'), affecting some of our IT assets. A ransomware group has claimed responsibility for this incident. The incident significantly affected operations, and it took considerable time to address the regulatory expectations, qualifications, recertifications, and fine-tuning of the quality and production systems. This 'incident' adversely impacted the Company's revenue and profitability for the year ended March 31, 2024. Furthermore, the Company has enhanced security measures to handle the incident and reduce the likelihood of a similar occurrence.

Our response strategy towards mitigating any impact from potential cyber security threats, includes 24*7 IT SOC (Security Operations Center) that monitors all critical servers and crown jewels, micro-segmentation of servers, deployment of strong spam filters, end-point detection and response controls, supplemented by periodic vulnerability and penetration testing, and timely remediation/ closure of potential vulnerabilities identified. Further, users across sites and functions are trained and sensitized periodically on cyber security, data protection and data privacy. Data Lock Point (DLP) has been configured across existing systems, to mitigate the risk of data loss.

Ability to attract, retain and upskill talent

Attract and retain technically skilled workforce to ensure seamless delivery of operations, and achievement of strategic objectives.

Our response strategy is focused on enhancing engagement across all levels of employees within the organization, in addition to facilitating skill upgradation through self-paced learnings and Company-organized workshops developed and aligned with functional and organizational priorities.

Sustainability and ESG Risk

Delays or challenges to meet stakeholders' expectations and achieve publicly declared ESG commitments, can lead to adverse reputational/ business impact. Additionally, our business and operations are subject to risks related to climate change resulting in physical and transitional risks.

To mitigate sustainability risks, we have developed a comprehensive Sustainability Governance Mechanism, including a dedicated sustainability committee to oversee ESG matters. We have defined organizational KPIs for both short-term and long-term ESG goals, ensuring alignment across the organization. Our Sustainable Sourcing Framework is being institutionalized to embed sustainability in procurement practices.

Additionally, we have finalized a Net Zero 2050 roadmap, outlining our decarbonization strategies for Scope 1, 2, and 3 emissions. Our CZRO project, aimed at addressing Scope 3 emissions through green molecule platform, commenced pilot-scale operations in March 2024. We have initiated key projects to increase the use of renewable energy, including adopting renewable energy through Power Purchasing Agreements (PPAs), Renewable Energy Credits (RECs), and efficiency improvement measures. We are adopting eco-friendly technologies such as biocatalysis and integrating sustainability into product development through an Eco-scale and green scorecard system, encompassing six categories and 38 parameters.

These initiatives collectively reinforce our commitment to sustainability and our proactive approach to mitigating associated risks.

Our focus and emphasis on risk management as a strategic pillar enables us to **anticipate challenges, adapt swiftly to market dynamics**, and **innovate continuously**.

Granules is committed **to fostering a risk-intelligent and risk-aware culture** that permeates both our organization and our external relationships.

Through efforts to continuously improve the ERM program, Granules aspires to **set new standards of excellence, driving sustainable growth** and **long-term success** for our Company and its stakeholders.