

# **Foreign Exchange Risk Management Policy and Procedures**

## **I. STATEMENT OF PURPOSE :**

The purpose of this policy is to establish parameters for Kothari Products Limited governing the management of foreign currency exposures. Kothari Products Limited (KPL) is exposed to foreign currency rate fluctuations in the normal course of its business. A portion of our revenue, expense, capital and Trading / Business activities are transacted in foreign currencies.

The objective of currency management is to minimize, to the extent possible, any effect the fluctuation in foreign exchange rates on Kothari Products earnings or fair values of assets and liabilities, without exposing Company to any risks associated with transactions, which could be regarded as speculative.

Foreign currency risk management covers the identification of currency exposures, risk measurement and the actions employed to mitigate such risks. Currency risk mitigation entails cash flow management or utilizing hedging instruments to protect against volatility of earnings or the Indian Rupee (INR) equivalent of cash flows associated with changes in foreign exchange rates.

## **II. SCOPE**

This policy applies to Kothari Products Limited and its Subsidiaries (hereinafter referred to as "the Company").

## **III. POLICY GUIDELINES**

Company will Book the Foreign Currency Exposure as per the Given Guidelines of FEMA and RBI Master Circular on Risk Management and Inter Bank Dealing (RBI/2014-15/12 Master Circular No.5/2014-15).

1. The Company uses derivative instruments, primarily forward contracts, to hedge foreign currency exposures. Other hedging instruments such as plain vanilla options, risk reversals and participating forwards will be used only in special circumstances as approved. The maturity of such instruments should be no longer than one year.

2. The Company will hedge its known exposures if it is determined that changes in foreign exchange rates are to have a material impact on earnings or fair values of assets and liabilities.

3. The Company does not use derivative contracts for speculative purposes.

4. Company designates its derivatives as fair value hedges, cash flow hedges or hedges of the foreign exposure of a net investment in a foreign operation (net investment hedge).

5. The Company estimates the fair value of derivatives based on quoted market prices and records all derivatives on the balance sheet at fair value.

6. The Company will hedge the fair value exposure of recognized foreign currency denominated assets or liabilities, or previously unrecognized firm commitment. For derivative instruments that are designated as fair value hedge, the Company recognizes its gains and losses, as well as the offsetting gains or losses of the hedged items, in earnings in the current period.

7. The Company will hedge exposures to the variability in the Indian Rupee equivalent of anticipated foreign exchange cash flows. These exposures arise from forecasted revenue and expenses that are denominated in Currency other than Indian Rupee.

8. The Company hedge net investment in certain foreign subsidiaries whose functional currency is the local currency.

9. The Company will establish procedures for measuring and predicting the Company's entire foreign exchange exposure on a periodic basis. The results will be reported to management so that they are aware of the potential exposure and may choose to take steps to limit these exposures.

10. The Foreign Exchange Policy will be generally implemented, reviewed and monitored by the Foreign Exchange Review Committee (FXC) that shall consist of the Managing Director, Chief executive office, chief financial officer and the Treasury Head.

11. The Company will only enter into derivative contracts with financial intuitions, Currency Exchanges and AD Category Banks (Bank of India, Punjab National Bank, Indian Overseas Bank, Canara Bank, Allahabad Bank, UCO Bank, State Bank of India, Andhra Bank, Bank of Baroda, Yes Bank and ICICI Bank)

#### IV. TREASURY STRUCTURE, RESPONSIBILITY and AUTHORITY

The corporate treasury department will be responsible for the execution of all foreign exchange transactions for the Company. Exceptions to corporate treasury executing the foreign exchange transactions may be made based on regulatory restrictions, as per the given guidelines of FEMA and RBI Master Circular on Risk Management and Inter Bank Dealing (RBI/2014-15/12 Master Circular No.5/2014-15. Dated July 01, 2014) **further amended from time to time.**

This policy recognizes that the corporate treasury department is not a profit center and any activities that might be perceived as speculative trading is in violation of this policy.

*Corporate treasury will:*

1. Execute transactions in accordance with this foreign exchange policy.
2. Monitor results of all hedging activity.
3. Report results of foreign exchange activity to the FXC at least quarterly, based on gain/loss thresholds.
4. Provide mark to market (MTM) information to the FXC and the accounting function monthly, within three days of the business month end.
5. Provide information on realized gains and losses to the FXC and the accounting function within three days of the business month end.
6. Run an MTM report of outstanding derivatives weekly. If any MTM report shows a change in unrealized losses of greater than INR 20MN, then this report will be sent to the FXC within one day of the MTM report being run.
7. Send all trade confirmations / Underline Contract directly to the Bank Treasury through Branch.
8. Provide all contracts-related information or underline Contract to the Account department.

The Chief Financial Officer, Head of the Treasury Department and the FX treasury manager shall individually have the authority to enter into foreign exchange contracts in the Company name and on its behalf within the guidelines set forth in this policy. Any exceptions to this policy must be approved, in writing, by the chief financial officer / Treasury Head. A signed dealing mandate will be sent to all financial institutions.

A. *Responsibility of the Board of Directors:* The board of directors has the following responsibilities with respect to the management of the Company's foreign exchange exposure:

Review and approval of the Company's foreign exchange policy.

Review of one monthly foreign exchange report per quarter to determine whether the foreign exchange activity adheres to the established foreign exchange policy, and whether the performance of the hedging strategies are reasonable given the objectives of the Company and the current economic and financial environment.

B. *Responsibility of the Chief Financial Officer / Head of Treasury Department:* The chief financial officer / Head of the treasury Department has the following responsibilities with respect to the management of the Company's foreign exchange exposure:

Review and approval of the Company's foreign exchange policy.

Approval of all relationships with banks, setting up of limits and other financial institutions established by the treasury manager for the purpose of conducting foreign exchange business.

Review each foreign exchange position and monthly reports for foreign exchange compliance and performance.

Approval in advance of all foreign exchange transactions that are not consistent with the guidelines prescribed in this policy.

He must notify the board of directors of such transactions. The CFO / Head of Treasury will implement control systems and procedures that provide for an appropriate level of segregation of duties related to the conducting and accounting for foreign exchange activity.

C. *Responsibility of the Treasury Manager:* The treasury manager has the following responsibilities with respect to the management of the Company's foreign exchange exposure.

Conduct foreign exchange activity that has been authorized and approved by the Company. This includes buying and selling foreign exchange spot and forward contracts.

Conduct monthly reviews of foreign exchange positions and enter into new contracts as necessary.

Preparation of the reports specified in this Foreign Exchange Policy for management review.

## **V. REPORTING**

*A. Report Contents:* The Treasury Department will prepare, and the chief financial officer / Head of Treasury Department will review, a Monthly Foreign Exchange Report on accounting exposures that contains the following information:

1. The net transaction exposure of the Company by currency and recommendations of appropriate hedging actions.
2. Number of transactions (contracts purchased and sold) made during the month.
3. Summary of the current open foreign exchange contracts and explanation of the strategy behind the open positions.
4. Results of positions that have been closed during the month.
5. Reasons for and amounts of violations of or exceptions to the foreign exchange policy in the portfolio.
6. Status of any foreign exchange positions that might require management attention.

*B. Report Distribution:* The monthly Foreign Exchange Report will be distributed to the chief financial officer and Treasury Head. Once per quarter, the report will go to the board of directors for review.

## **VI. INTERNAL ACCOUNTING CONTROLS**

The treasury manager is responsible for recommending and the Treasury Head is responsible for approving all hedging strategies. Only the chief financial officer, Treasury Head, and the treasury manager shall have the authority to enter foreign exchange contracts that will provide foreign exchange coverage. The Treasury Head is responsible for implementing internal control procedures, accounting entries and ensuring that procedures are followed.

Once the chief financial officer / Treasury Head has approved a hedging strategy, the treasury manager is authorized to execute the contracts with an approved bank. The following procedures shall be followed:

1. All transactions will be recorded immediately upon execution on the FX Contract Log kept by the treasury manager. The aggregate amount of

hedge contracts by currency should not deviate from the approved covering action.

2. Immediately upon execution, the treasury manager will provide all details of each contract to the controller and send the bank a written contract confirmation listing the pertinent details of the contract: currency, amount, spot and forward rates, value date and purpose of hedge. These contracts shall be crosschecked against the FX exposure log sheet. These confirmations will be used as the primary means of checking the accuracy of the confirmation issued by the banks.

3. Bank confirmation of foreign exchange transactions will be sent directly to the Treasury Head. The Treasury Head, or designated person, shall keep a log of incoming confirmations, filed by bank. If the confirmation has not been received within 10 working days after the execution date of the contract, the controller will personally contact the bank to verify that the trade is on the bank's records and request a confirmation in writing from the bank.

4. The Accounts Department shall compare the bank's record of the transaction with the Company-originated confirmation. If the two records concur, the Accounts Head will sign the bank confirmation and return it to the appropriate bank (keep copies of the signed confirmation for the treasury manager's files). If there is a discrepancy, the Accounts Head will personally contact both the bank and the treasury manager to determine whose records are in error. The chief financial officer / Treasury Head shall be notified of all discrepancy occurrences.

5. At the end of the month, the Accounts Head, or a designated person, shall review all incoming and outgoing cash transfers pertaining to foreign exchange. The Accounts Head shall ensure that the appropriate amounts were received/ paid on the appropriate dates. Specifically, cash transfers related to FX contracts should be reconciled with the Monthly FX Contract Summary and supported by copies of the confirmations. The same procedure shall be performed at the end of each quarter for the entry supporting unrealized gains / losses on open FX contracts.

## **VII. REVIEW OF FOREIGN EXCHANGE MANAGEMENT**

A. *Policy Exceptions:* This policy provides guidelines for the management of the foreign exchange hedging. Under some circumstances, foreign exchange transactions that are appropriate for the Company and entirely within the spirit of this Foreign Exchange Policy as described in the Objectives section may not fall within the prescribed quantitative guidelines contained in this Foreign Exchange

Policy. When the treasury manager determines that a foreign exchange transaction is in the best interest of the Company and is consistent with the objectives of this Foreign Exchange Policy, the transaction is permitted even though it is not consistent with the quantitative guidelines, subject to the following controls.

Whenever a transaction is made that is an exception to the quantitative guidelines, the chief financial officer / Treasury Head must approve the transaction in writing prior to execution.

It will be reported to the chief executive officer and the board of directors in the monthly FX Report as required by Section IIA of this policy.

If the policy is breached, the chief financial officer / Treasury Head must be notified immediately. The chief financial officer / Treasury Head is then responsible for notifying the board of directors of the breach of policy, either immediately or in the quarterly Foreign Exchange Report, at his discretion. □

#### *B. Policy Review:*

This Foreign Exchange Policy will be reviewed annually, at a minimum, to ensure that it remains consistent with the overall objectives of the Company and current with financial trends.

The Foreign Exchange Policy may be reviewed and updated more frequently if conditions dictate.

Proposed amendments to the Foreign Exchange Policy should be prepared by the treasury manager, and should be reviewed and ratified by the chief executive officer, chief financial officer, Treasury Head and the board of directors.