

# Risk Management Report

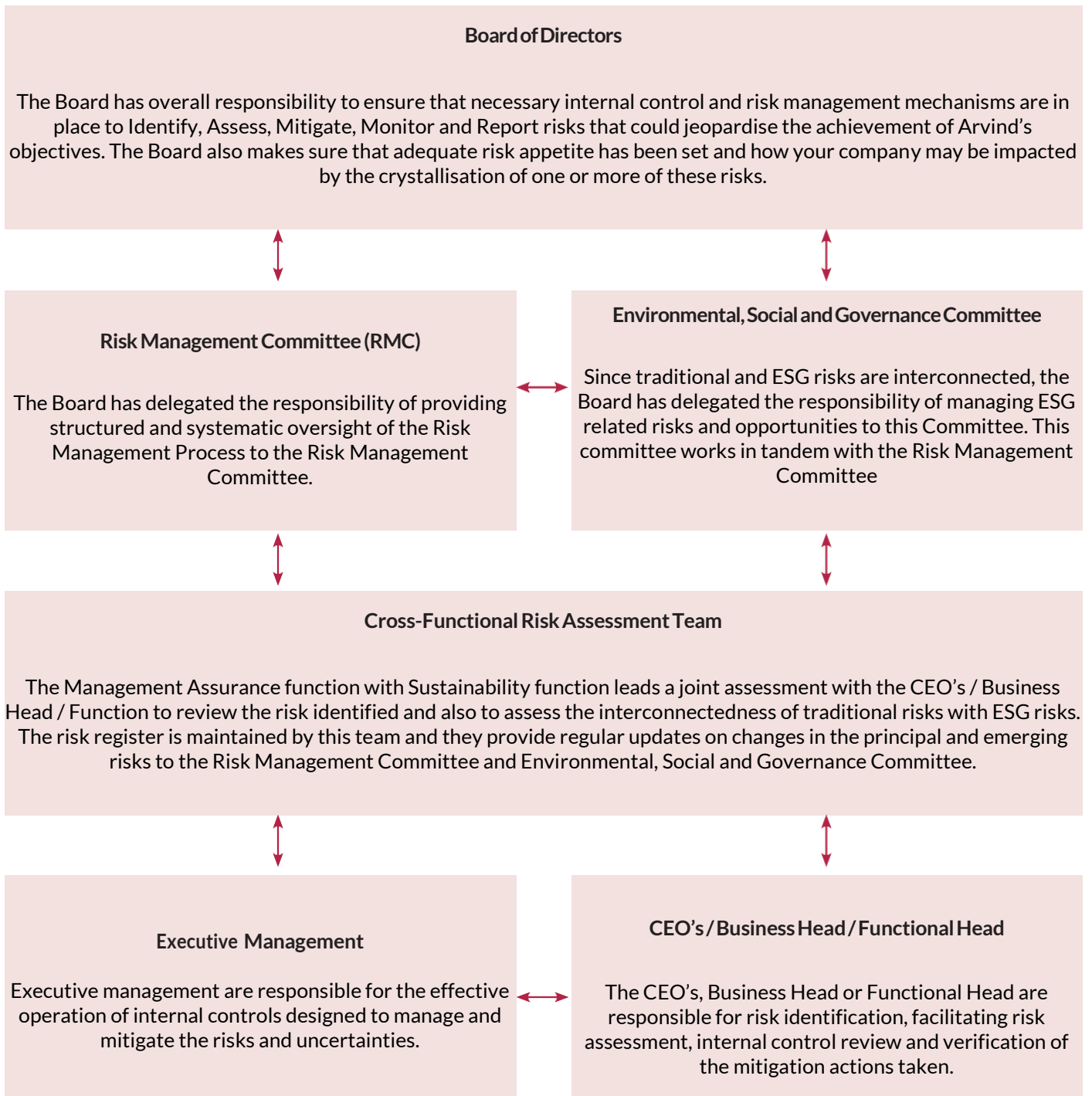
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Every adversity contains within it seeds of advantages. While we remain watchful and prepared for risks, we try to see every challenge as an opportunity to create value. We also consistently scan the business environment to prospect for opportunities and leverage them for growth.

## Risk Management Approach and Governance

We have a robust Enterprise Risk Management (ERM) framework that enables us to mitigate risk and achieve better growth. At Arvind, we see in every challenge a new opportunity to innovate, and drive growth and value. As per recommendations of TCFD, we have integrated our Climate-related Risk management into our existing ERM framework. The key principles that we have followed while integrating climate-related risk are - Interconnections | Temporal Orientation | Proportionality | Consistency. We are continuously scanning and monitoring the various risks faced by our business, and seeking out the opportunities that we can harness for sustained growth despite the risks.

## Our Risk Management Governance Framework



### Enterprise Risk Management Process

Our ERM strategy is integrated throughout the organisation to support the achievement of our strategic goals. The risk management processes follows a top-down and bottom-up evaluation to determine the risks as well as understand the impact, likelihood, root-cause and mitigation measures half yearly to implement for managing the risks and realising the opportunities. The risk management process followed in shown in Figure 1.

### Time Horizon

Our risk management approach considers the time horizon of short term to be 1 to 2 years, for medium term to be 3 to 5 years and for long term to be 5 to 15 years.

### Identify Risks

For the identification of Risks, the cross functional risk assessment team engages in one-on-one as well as group discussion with Executive Management, CEO's, Business Head and Functional Heads. Based on these discussion a risk register is prepared. These discussions are focussed on identifying financial, management risks and ESG related risks called as our Principal Risks.

### Assess Risks

Risk assessment process enables that the principal risks identified are categorised and graded in relation to their potential impact. According to our methodology, risks are evaluated by looking at two dimensions: the likelihood of occurrence and the severity of potential impact it materialises. Based on this evaluation, we classify risks into three categories: Strategic, Operational and Regulatory.

**Strategic Risks:** Relating to high level goals, aligned with and challenging the company's mission.

**Operational Risks:** Relating to effective and efficient use of company's resources and day to day operations.

**Regulatory Risks:** Relating to the company's compliance with applicable laws and regulations.

### Risk Evaluation Categories

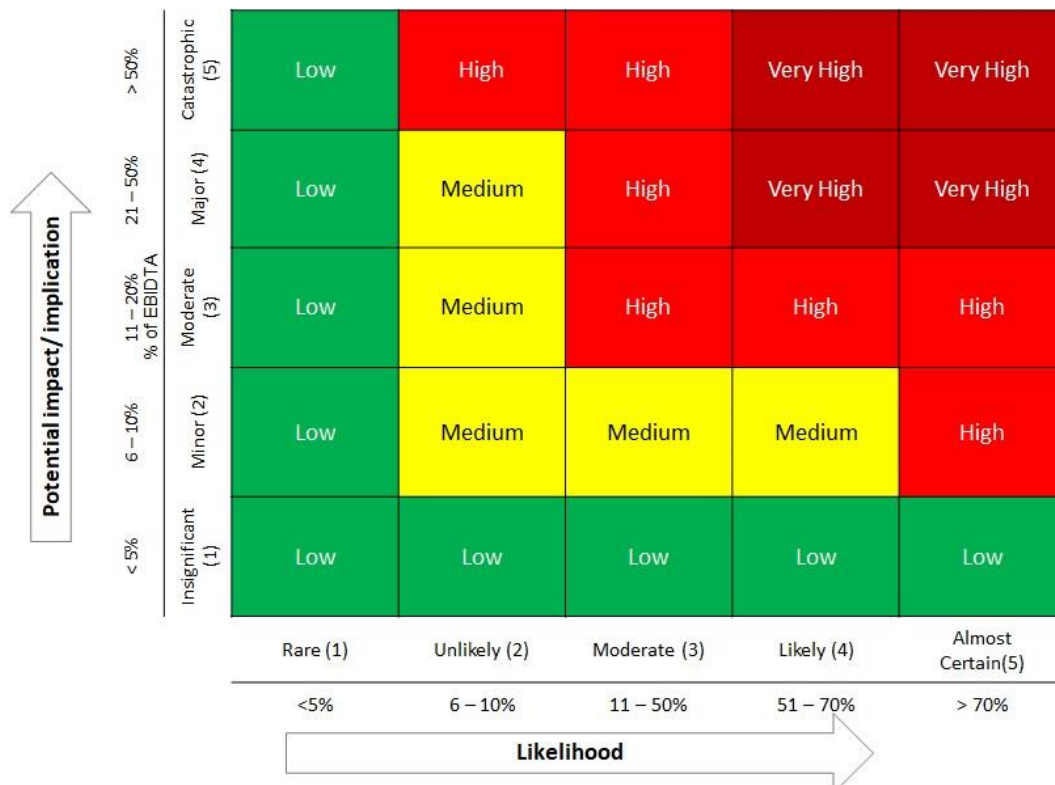
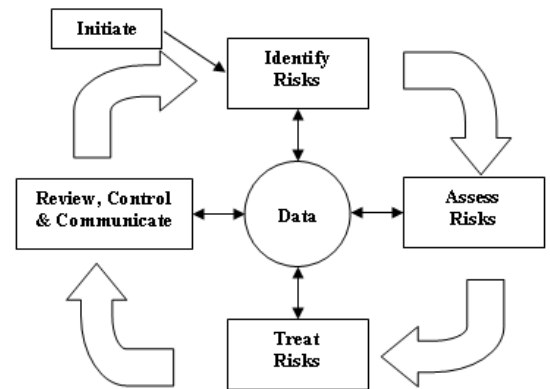


Figure 1: Risk Management Process



## Risk Mitigation

After the risk assessment, as per the risk management cycle, treatment of risks is carried out. This involves identifying options to treat risk, assessing the identified options, preparing and implementing risk treatment plan. The risk treatment plan is prepared keeping in mind that the risk should be either eliminated, mitigated or transferred after implementing the plan. The Executive management is responsible for the effective operation of internal controls designed as per the risk treatment plan to manage and mitigate the risks and uncertainties.

## Review, Control & Communicate

The risk review process involves re-examination of all the identified risks to ensure that the current assessment remains valid. The CEO's, Business Head or Functional Head are responsible for internal control review and verification of the mitigation actions taken. An effective system of prompt communication, follow-up and escalation is established to effectively review, control & communicate about the identified risks and the progress of mitigating actions.

The output of this process along with the output of Climate Risk Management process is shared with the ESG Committee and in turn the Board to enable them in making decisions to mitigate, transfer, accept, or control the identified risks and capitalize on the opportunities in business operation, upstream or downstream stages of the value chain.

## Business Risks

Illustrative list of key business risks are mentioned below:

Risk Description	Nature of Risk	Potential Impact	Likelihood	Brief Mitigating Actions
Shift in consumer as well as customer demand due to geo political or macro-economic factors	Strategic	Major	Moderate	Expanding/ diversifying business opportunities across geographies and business verticals. Business verticalization to provide customer with OneArvind experience.
Operational disruption in the event of major non-compliance to the regulatory laws and compliances	Regulatory	Moderate	Unlikely	Compliance tool is deployed to ensure timely regulatory compliances are performed by the respective process owners. Dedicated team to monitor adherence of regulatory laws and compliances.
Delay in order fulfilment due to unavailability/ lack of skilled manpower	Operational	Minor	Unlikely	Continuous training and development of manpower. Location specific dedicated teams to ensure identification and development of talent pool.
Operational disruption in the event of safety incident	Operational	Moderate	Unlikely	Structured job-oriented training programs for employees and workers across businesses. Area/ Location specific safety awareness programs conducted on periodic basis.

## Climate Risk Management

Climate change is defined as the phenomenon of long-term change in average weather patterns at a global, regional or local level. Human influence on climate is the dominant cause of observed warming since the mid-20<sup>th</sup> century. The warming has already driven changes in the ecosystem like increase in droughts, floods and other extreme weather events. These changes are also affecting the people and livelihoods all around the world (IPCC, 2018). It is also reshaping the operational environment for businesses and almost all industries are vulnerable to effects of climate change. It includes the potential

for adverse effects on lives, livelihoods, health status, economic, social and cultural assets, services (including environmental), and infrastructure due to climate change.

In order to understand and disclose to stakeholders about the risk and opportunities arising as a result of climate change, the Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015. In 2017, TCFD came up with a framework with four recommendations for climate related financial disclosures. These recommendations were adopted by CDP in 2018. Since, we have been reporting in CDP from 2015, we have integrated the TCFD recommendations in our organisation. The details of which are mentioned below:

## Governance

Initially, the Executive Director was the boards champion for sustainability and overseeing the convergence between sustainability and business policy. We strengthened this structure by creating a board level Environmental, Social and Governance (ESG) Committee. This committee considers ESG risks & opportunities while setting up ESG visions & ambition and reviewing & guiding strategy for the company.

## Strategy

Climate-related risks are sensitive to time horizon, some risks are long-term in nature and some can be experienced in a very short period of time. We have started seeing the physical risks such as increased intensity and frequency of extreme weather events like storms, floods etc. even today. Thus it is imperative that we define our timeframes according to the climate-related risks we face and the sectors & geographies we operate in. At Arvind, our timeframes for Climate Risk Management is aligned with the Enterprise Risk Management approach.

## Potential Climate Risk & Opportunities

In alignment with the TCFD recommendations and our Enterprise Risk Management process, we have identified potential risks along with the time horizon, likelihood and the magnitude. The magnitude is assessed on a qualitative basis considering factors like proportion of business affected, size of the impact on those business and the potential for stakeholder concern. The details of this assessment is below:

### Physical Risks

Risk Type	Primary Climate-related risk driver	Time Horizon	Likelihood	Magnitude
Acute	Increased frequency of extreme weather events like Drought, Flood, Heat Wave, Heavy Precipitation etc.	Medium Term	Moderate	Medium-Low
Chronic	Changing precipitation patterns and types (rain, hail, snow / ice)	Long Term	Moderate	Medium-Low
Chronic	Changing temperature (air, freshwater, marine water)	Long Term	Moderate	Medium-High
Chronic	Heat Stress	Medium Term	Moderate	Medium
Chronic	Water Scarcity	Long Term	Likely	Medium-High

### Transitional Risks

Risk Type	Primary Climate-related risk driver	Time Horizon	Likelihood	Magnitude
Current and Emerging Regulation	Enhanced emission reporting obligation	Short Term	Almost Certain	Low
Current and Emerging Regulation	Carbon Tax	Medium Term	Likely	Medium-Low

<b>Current and Emerging Regulation</b>	Phasing out of coal	Long Term	Almost Certain	Medium-Low
<b>Current and Emerging Regulation</b>	Regulation of existing products and services leading to higher compliance cost	Medium Term	Likely	Medium-Low
<b>Legal</b>	Exposure to litigation for sustainability claims	Long Term	Unlikely	Low
<b>Technology</b>	Unsuccessful investment in new technologies	Medium Term	Likely	High
<b>Technology</b>	Cost of transitioning to lower emissions technology	Medium Term	Almost Certain	Medium
<b>Technology</b>	Early retirement of existing assets	Short Term	Almost Certain	Medium
<b>Market</b>	Increased cost of sustainable raw materials	Medium Term	Likely	Medium-Low
<b>Market</b>	Changing customer behaviour	Medium Term	Almost Certain	High
<b>Market</b>	Shift in demand and supply for sustainable raw materials	Short Term	Almost Certain	Medium
<b>Reputation</b>	Stigmatization of sector	Medium Term	Moderate	Low
<b>Reputation</b>	Increased stakeholder concern	Medium Term	Moderate	Medium-Low

Climate change on one hand poses potential risks as described above, however on the other hand it also brings about a varied set of potential opportunities for organizations willing to innovate and adapt. As we keep evolving to be a sustainable organization, some of our potential opportunities include:

<b>Opportunity Area</b>	<b>Description</b>
<b>Resource Efficiency</b>	Use of more efficient production and distribution processes, use of recycling, reduced water usage and consumption
<b>Energy Source</b>	Use of lower emission sources of energy, Use of new technologies, Participation in carbon market, Shift towards decentralised energy generation
<b>Products and Services</b>	Development of new products and services through R&D and innovation, Development and/or expansion of goods and services with lower emission, Better competitive position to reflect shifting consumer preferences
<b>Markets</b>	Access to new markets
<b>Resilience</b>	Resource substitution / diversification, Participation in renewable energy programs and adoption of energy efficiency measures.

### Potential Impact of Climate Risks & Opportunities

At Arvind, we have built our understanding about our impact on climate change and climate change's impact on us. The impact of climate change is reshaping the operating environment of businesses and its potential impact on our business is listed below:

Risk	Opportunities
<ul style="list-style-type: none"> <li>• Reduced revenue from decreased production capacity e.g. supply chain disruptions</li> <li>• Reduced revenue and higher costs from impacts on operations, and supply chain.</li> <li>• Increased capital expenditures and costs to adopt and deploy new practices/processes</li> <li>• Increased direct costs due to changing input prices e.g. energy, water, sustainable raw material, etc. and output requirements e.g. wastewater, waste etc.</li> <li>• Increased operating cost e.g. caused by higher compliance cost</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced operating costs (through efficiency gains and cost reductions)</li> <li>• Reduced exposure to future fossil fuel price increases</li> <li>• Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon</li> <li>• Increased capital availability (as more investors are favouring lower emission producers or ESG compliant companies)</li> <li>• Increased revenue through demand for lower emission products and services</li> <li>• Better competitive position to reflect shifting consumer preferences resulting in increased revenues through access to new and emerging market</li> <li>• Increased reliability of supply chain and ability to operate under various conditions</li> </ul>

### Our Approach

Based on the climate risks & opportunities and their associated factors such as time horizon, impact etc. we have adopted the approach of being 'Fundamentally Right'. This approach focuses on input management rather than tailpipe interventions. We continue to push our boundaries to adopt mitigation and adaptation solutions across our six key inputs – Fibre, Water, Energy, Chemicals and People to be proactive in managing climate change. Some of the actions that we have adopted based on our understanding of climate risks & opportunities are:

- Promoting sustainable agriculture practices amongst farmers to build an uninterrupted supply of sustainable fibers and reduce agriculture related emissions.
- Investing in renewable energy and reducing our dependence on fossil fuel source of energy
- Installing Zero Liquid Discharge system in manufacturing operations to reduce our dependence on freshwater
- Adopting green chemistry to reduce our emissions from chemical use
- Investing in resource efficient and low emission technology

### Scenario Analysis & Resilience of our Approach

Climate change will impact the economy and environment via either physical risk or transitional risk. Thus, we undertook a qualitative analysis of two physical scenarios (RCP 2.6, RCP 8.5) and two transition scenarios (IEA 2DS, IEA STEPS) to understand the resilience of our approach to climate change.

#### Physical Climate Scenarios

We have selected RCP 2.6 as it requires very stringent mitigation actions so that carbon dioxide emissions start declining by 2020 and go to zero by 2100. This will likely keep the global temperature rise below 2°C by 2100. On the other hand, we selected RCP 8.5, which is a worst-case scenario i.e. emissions continue to rise throughout the 21<sup>st</sup> century.

## Transition scenarios

For the transitional scenarios, we selected the IEA 2DS and IEA STEPS scenarios. The IEA 2DS scenario was selected as it is built on projected warming limit of 2°C and sets the target of cutting CO<sub>2</sub> emissions by almost 60% by 2050 (compared with 2013), followed by continued decline after 2050 until carbon neutrality is reached. The IEA STEPS on the other does not take for granted that government will meet all its announced goal. It looks at the where the energy system will go without any additional policy implementation.

## Insights gained from Climate Scenarios

According to the various scenarios selected above, some of the key physical and transitional changes that may occur are:

- The global mean surface temperature change for the period 2016–2035 relative to 1986–2005 is similar for the four RCPs (RCP2.6, RCP4.5, RCP6.0 and RCP8.5) will likely be in the range 0.3°C to 0.7°C (medium confidence).
- Changes in precipitation will not be uniform. In many mid-latitude and subtropical dry regions, mean precipitation will likely decrease, while in many mid-latitude wet regions, mean precipitation will likely increase under the RCP8.5 scenario.
- By 2100 for RCP8.5, the combination of high temperature and humidity in some areas for parts of the year is expected to compromise common human activities, including growing food and working outdoors (high confidence)
- Climate change is projected to reduce renewable surface water and groundwater resources in most dry subtropical regions (robust evidence, high agreement), intensifying competition for water among sectors (limited evidence, medium agreement).
- In urban areas climate change is projected to increase risks for people, assets, economies and ecosystems, including risks from heat stress, storms and extreme precipitation, inland and coastal flooding, landslides, air pollution, drought, water scarcity, sea level rise and storm surges (very high confidence).
- In IEA 2DS scenario, efficiency and renewable energies will be the main contributors, with a 40% and 35% of the share, respectively. Fuel switching will contribute 5% and nuclear 6%. Furthermore, other technologies still in development e.g. Carbon Capture and Storage will account for 14% of the decrease.
- Comparing 2025 and 2050 for the 2DS scenario there is a considerable decrease in the total primary demand of fossil fuels, 57, 31 and 27%, for coal, oil and natural gas, respectively.
- Coal use rebounds more rapidly in the near term and stays above last year's projections until around 2030, but its subsequent decline is faster than projected in 2020 (and much faster than projected five years ago) as per IEA STEPS.
- In the IEA STEPS, around 2050, there would be a 100% increase in the frequency of extreme heat events compared to today and these would be around 120% more intense; there would also be a 40% increase in ecological droughts that would be around 100% more intense.
- As per IEA STEPS, the global average surface temperature rise would exceed 1.5 degrees Celsius (°C) around 2030. Emissions in 2050 are around 32 Gt CO<sub>2</sub>: if emissions continue their trend after 2050, and if there are similar changes in non-energy-related greenhouse gas (GHG) emissions, the rise in temperature in 2100 would be around 2.6°C.
- In the STEPS, oil demand in developing economies is 12 million barrels per day (mb/d) higher in 2030 than in 2020 (an increase of nearly 30%), gas demand by 520 bcm (a near-25% increase), and coal demand by 160 million tonnes of coal equivalent (Mtce) (a 4% rise).
- Global unabated coal use in the energy system falls by around 5% to 2030 in the STEPS
- In the STEPS, rising oil and gas demand leads to price levels that incentivise investment in new supply.
- Renewables account for almost two-thirds of all new power capacity additions in emerging market and developing economies (excluding China) in the STEPS by 2030, up from about half today.

Source: (International Energy Agency, 2022), (International Energy Agency, 2017), (IPCC, 2014)

## Resilience of our Approach

At Arvind, we have consistently focused and invested in strengthening our resilience to future risks. Our investments in sustainable technologies go back a long way, in 1997 we recognised the importance of water and installed our first Zero Liquid Discharge plant which was then the largest in Asia.

Understanding the potential physical and transition changes provides us a way to safeguard and strengthen our business from future risks and is important to us. To summarise, the uncertainties in the future climate states are related to water scarcity, increase in ecological droughts, changes in precipitation pattern, increase in frequency of extreme weather events, phasing out of fossil fuels etc.

The initiatives we are taking as part of our approach of being 'Fundamentally Right' are aligned with the uncertainties faced in future-climate states. For example to tackle water scarcity we are reducing our dependence on freshwater and recycling our water, to reduce our dependence on coal and decreasing emissions we are increasing the use of biomass, to reduce the agricultural GHG emissions we are promoting sustainable farming practices. We have also defined climate related metrics and have set target for each metric. These metrics are tracked continually to ensure that we are on the right path to climate change management. Thus, we believe that our approach is resilient to various future-climate states.



Our financial plans are also aligned with this approach. We are slowly and steadily investing in promoting sustainable agriculture, installing new resource efficient manufacturing machinery, increasing our renewable energy capacity, developing products with low carbon emissions etc. Additionally, we keep on scouting for innovators as well as conduct in house R&D to optimize & reduce

## Emerging Risks

We concentrate on improving our knowledge of emerging risks that could negatively impact our business. Together with the Executive Management, the cross-functional team undertakes thorough horizon scanning to identify and evaluate new threats and possibilities as well as how to respond to them. Emerging risks are by their very nature highly speculative, thus in order to manage them, we consult with our key stakeholders to better comprehend them and their possible effects. The emerging risks identified as part of the Enterprise Risk Management process are:

### Emerging Risk 1: Disruptive Technologies

**Category:** Technological

**Description and Potential Impact:** Disruptive technologies are new technologies that have the potential to significantly change the way that the textile industry operates. Some of these are supercritical CO<sub>2</sub> dyeing, foam dyeing, 3D printing, Artificial Intelligence, block chain etc. These technologies have the potential to have a significant impact. On the one hand, they could create new opportunities for growth and innovation. For example, new technologies could be used to develop new products and services, or to improve the efficiency and sustainability of the industry. On the other hand, they could also pose a number of challenges. For example, new technologies could make it easier for new entrants to enter the industry, increasing competition. New technologies could also lead to changes in consumer preferences, which could reduce demand for some products.

**Mitigating Actions:** In order to mitigate the risks of disruptive technology we are investing actively in Research and Development to develop new products and services that leverage new technologies like foam dyeing. We are also partnering with Innovation Accelerators and Innovators to develop or adopt new technologies. Example, we collaborated with Textile Genesis to adopt block chain technology based traceability solutions to offer end to end traceability to our customers.

### Emerging Risk 2: Technological Unemployment

**Category:** Societal

**Description and Potential Impact:** Technological unemployment is a situation where people are without work and seeking work because of innovative production processes and labour-saving organizational solutions. Since new technologies are emerging all the time, these technologies could lead to job displacement in the textile and apparel industry. For example, automation could be used to replace human labour in a number of tasks, such as inspection, packing, manufacturing etc. Artificial Intelligence could also be used to automate tasks.

**Mitigating Actions:** In order to mitigate the potential impact of technological unemployment it is imperative that focus is given on amplifying the human and intellectual capital. At Arvind, we are continually investing in learning and development in order to augment capacity of our workforce. Few of the Learning & Development initiatives that we are implementing right now are Eklavya, Udaan and Shikhar. The details of these programs are in our Annual Report 2022-23.

### Emerging Risk 3: Mental health deterioration

**Category:** Societal

**Description and Potential Impact:** The COVID-19 pandemic has had a significant impact on mental health around the world. It also led to an increase in awareness of mental health issues in the workforce. Mental health deterioration can have a significant impact on the productivity, well-being, and morale of its employees. Mental health problems such as depression, anxiety, and stress can lead to absenteeism, decreased productivity, and increased accidents and injuries.

**Mitigating Actions:** In order to mitigate the risks of mental health deterioration we have taken two steps, firstly we have implemented flexible working arrangement to help our workforce manage their work-life balance and reduce stress. Secondly, we have started an employee assistance program (EAP) that provides a free confidential counselling service designed to support the workforce and their family on emotional wellbeing and work-life balance matters.

### Emerging Risk 4: Natural Resource Crisis

**Category:** Environmental

**Description and Potential Impact:** A natural resource crisis is a situation in which the supply of natural resources is insufficient to meet the demand. This can be caused by a number of factors, such as overexploitation, pollution, and climate change. We are exposed to the risk of a natural resource crisis because we rely on a number of natural resources, such as water, cotton, and energy. A shortage of any of these resources could have a significant impact on the company's operations and profitability.

**Mitigating Actions:** In order to mitigate the potential impact we are actively reducing our consumption of natural resources by investing in technologies and processes that reduce consumption of water, energy, and other natural resources. We are also sourcing resources from suppliers that are committed to sustainable practices. Apart from this our focus on product development is around developing new products that require less water, energy, and other natural resources to produce.

## Priority Matrix of Risks

Risk prioritization is an ongoing process, and it is integrated into your organization's risk management framework. Regularly revisiting and updating the risk register ensures to remain agile in responding to emerging risks. Risk score is represented as output of impact and likelihood of associated risk. Higher risk scores indicate higher-priority risks that require attention and resources for mitigation.



## Fostering Risk Culture

At Arvind, we recognize the importance of fostering a risk culture within the organization, and to achieve this, we have implemented several measures and steps in organizational culture.

### 1. Business Division Risk Team

- Business Division Risk Team involves top-level executives such as CEOs, Business Heads, and Functional Heads. These leaders are responsible for driving risk management initiatives within their respective areas of influence.
- Team Leader: At the business division level, Risk Teams are formed and led by their respective Business Heads. This decentralized approach ensures that risk management is tailored to the specific needs and operations of each business unit.
- Team Members: The Unit Risk Teams are comprised of permanent members representing critical functions within the organization, including Finance, HR, Environment & Sustainability, and Safety & Health. This ensures a holistic and multidisciplinary approach to risk management.
- Risk Champion: To further promote ownership and accountability, each Unit Risk Team selects a Unit Risk Champion from among its members, who is approved by the Business Head of the unit. This champion takes on a leadership role in advocating for and implementing risk management practices.
- Meeting Frequency: Unit Risk Teams meet quarterly, prior to the organization-wide Risk Meeting, to review and assess existing risks, their impact, and likelihood. This periodic assessment ensures that risk management remains an active and ongoing process.

### 2. Communication and Education:

- We place significant emphasis on communication and education regarding risk management. We recognize that for risk management to become ingrained in the culture, employees at all levels must understand its importance and their role in it.
- Communications: To achieve this, there is a half yearly communication to key business team members that emphasize the significance of risk management throughout the organization.
- Learning & Development: There are training sessions and workshops to educate employees about its risk framework, policies, and procedures. These educational initiatives empower employees to actively participate in identifying and managing risks.

### 3. Risk Assessment and Identification:

- We actively encourage employees to participate in the risk identification process. Front-line employees often have valuable insights into potential risks and issues.
- Harmless Reporting: To create a culture where employees feel safe to raise concerns, Arvind has established an environment of openness and non-reprisal.
- Risk Identification: To facilitate risk identification and reporting, Company employs various tools, including risk assessments, surveys, and workshop mechanisms. These tools allow for the collection of risk information from different parts of the organization, enabling a comprehensive view of potential risks.

