

Strategic Risk Management



Risk Area – Price, Cost, and Margin Pressures

Risk Description – Market competition, revisions in the prices controlled by the government and changes in the costs or prices of raw materials and manufacturing expenses affect the business profitability.

Impact

Adverse effects on the overall financial performance and long-term business viability.

Mitigating Actions

1. Reinforce product portfolio with new and innovative products to be distinct from competitors and withstand pricing pressures. Cost-effective solutions such as:
 - Identify the feasibility of creating alternative vendors/sites for products to optimise production costs and reduce dependencies.
 - Optimise the dependencies on air transport in favour of cost-effective sea shipments to decrease transportation expenses.
 - Explore other options such as usage of alternate fuels and automation to increase cost efficiency in manufacturing processes.

Emerging Risks

At Sun Pharma, we assess risks by evaluating their likelihood, potential impact, and timeframe for occurrence. We review emerging risks at least every three years to ensure timely resolution and prevent serious consequences, focusing on their probability and potential effects

on the business in line with our risk management framework.

The management conducts a thorough analysis of internal and external data, including industry trends, market study, regulatory requirements, and expert insights,

to identify and classify emerging risks. This systematic approach enables timely implementation of mitigation strategies to address potential threats to the business. We present below two of the emerging risks identified by the management.

Geopolitical Fragmentation

High risk to manufacturing facilities and customers situated in regions experiencing heightened geopolitical tensions in the Middle East, and Eastern Europe. Sun Pharma has operations in Israel, Russia, Bangladesh, and Ukraine which are experiencing extended regional conflict.

Impact

Sun Pharma has global presence with manufacturing locations and customers located in several countries. Some of our manufacturing facilities are located in Israel, Russia and Bangladesh. These regions are experiencing heightened regional tensions over the past few years.

For us, supply chain disruptions are a significant concern, as conflicts can hinder the transportation of raw materials and finished products, leading to production delays or stoppages. The safety of our workforce becomes critical, with potential reductions in staff availability due to security threats. Facilities may also suffer physical damage, further interrupting manufacturing and research activities. Extended conflict causes disruptions in local healthcare infrastructure and can impede patient access to medications. Governments in conflict regions can impose trade restrictions or

sanctions that hinder international transactions. Also, economic instability can lead to currency volatility, affecting operational costs and profitability.

Mitigation Action

Comprehensive risk management and contingency planning is implemented to prepare for potential geopolitical disruptions. The Company has implemented steps to mitigate the impacts of geopolitical fragmentation through strategic planning, resource allocation and by building stronger international relationships. Additionally, our corporate social responsibility initiatives and engagement with local communities helps us to build goodwill to mitigate political risks. Investments in healthcare infrastructure and community programmes strengthens relationships with local stakeholders.



Spread of Inaccurate Information and Declining Trust

Increasing use of technology has a potential to be misused and may knowingly or unknowingly lead to spread of wrong or incorrect information about our medicines and organisation through social media. There is a possibility of misuse of the same by individuals/organisations to propagate incorrect information, knowingly or unknowingly against the Company, industry, product, molecules and may have a potentially negative impact on reputation. Sustained inaccurate information and resulting campaigns can potentially lead to long term erosion of trust for the concerned organisation. This risk is increasingly becoming important as pharmaceutical organisations are under constant attacks from alternative medicine practitioners, specifically in India.

Impact

Dissemination of incomplete and/or incorrect information regarding the dangers or inefficacy of medications can result in mistrust on part of the patient and non-adherence to recommended treatment regimen resulting in non-compliance and a negative impact on the patient's health outcome. Continuous spread of incomplete or misinformation can prompt unwarranted scrutiny from regulatory bodies, potentially leading to investigations and inspections. A decline in public confidence can have a negative impact on product sales, directly impacting the Company's financial performance. Continued spread of incomplete and or incorrect information may lead to a decrease in stock prices and investor confidence. Erosion of trust can cause research institutions to be hesitant to collaborate on research projects, affecting innovation and development of novel products.

Mitigation Action

Sun Pharma has undertaken initiatives aimed at promoting scientific medical and pharmaceutical research outcomes for public health improvement. It involves sharing medical and pharmaceutical research with the public after conducting scientific research on ways to improve public health. This initiative has helped young scientists and scholars in the medical and pharmaceutical fields to work towards improving public health. We also implement a programme on Mobile Healthcare Unit that emphasises Health Promotion and Preventive Healthcare Education in underserved and marginalised areas and also provides Curative Treatment to those in dire need. Sun Pharma also supports various patient education initiatives through doctors to improve awareness of disease and its management. With regards to our products we have taken significant measures in our product packaging to address product counterfeit issues and continue to educate the health care practitioners on the same on a regular basis. Sun Pharma is also working very closely with the policy making authorities and industry associations to address the issues related to counterfeit medicines.

Risk Culture

We recognise the importance of instilling a risk management culture across the Company, backed by a robust framework for timely risk assessment and mitigations. We believe that having a holistic and robust risk culture is necessary for effective risk management. We provide focused risk training to our employees to help them learn and increase their awareness of potential risks and understand the importance of timely identification and reporting of risks for effective mitigation. Our Information Technology Security

Team and Company Secretary regularly share information on various risks. We make consistent efforts to ensure that employees follow regulatory requirements.

As part of the familiarisation programme for the Board Members as envisaged under Regulation 25(7), of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the functional heads/senior executives make presentations to the Board Members on various topics covering operations, functional overviews, business

performance and opportunities, risk management framework, and the regulatory environment in which the Company operates.

As a pharmaceutical company, we also recognise the importance of incorporating risk criteria within product development and approval. We have developed a reliable global quality standard to provide all users with critical information on managing risk throughout a product's lifecycle, from product development to disposal.