



RAJAPALAYAM MILLS LIMITED

**FOREIGN EXCHANGE RISK
MANAGEMENT POLICY**

FOREIGN EXCHANGE RISK MANAGEMENT POLICY

1. PREAMBLE

- 1.1 Company's business activities inter-alia include import of different varieties of cotton and Capital Equipments like Machineries, Spares, etc. Which are linked to international prices and major international currencies. As a result the Company is exposed to exchange rate fluctuations on its imports and exports. The Company also avails Foreign Currency (FC) funding in the form of PCFC/Buyers credit as the situation warrants. The impact of these fluctuations on the Company's profitability and finances is considered material.
- 1.2 It is therefore, important that the Company manages and mitigates its risk and accordingly develop a Currency Risk Management Policy Document which will provide the necessary guiding parameters.

2. OBJECTIVES

- 2.1 To make certain that the Foreign Exchange Risks are effectively identified, assessed, monitored and managed by the Company in consistent with the overall objectives of the Company and in compliance with the legal requirements and regulations of Reserve Bank of India.
- 2.2 To manage Foreign Exchange transactions as a cost-containment exercise only.
- 2.3 To minimize the impact of Forex rate variations on INR value of the committed receipts and payments in foreign currencies while minimizing the cost of such protection.
- 2.4 To ensure FC funding, where availed, does not exceed the cost of Rupee funding of a comparable nature, at the time of availing.
- 2.5 To reduce cash flow uncertainties and improve financial decision making.

3. POLICY

- 3.1 Decisions regarding borrowing in Foreign Currency and hedging thereof, (both interest and exchange rate risk) and the quantum of coverage shall be driven by the need to keep the cost comparable.
- 3.2 Foreign Currency loans shall be hedged after taking into consideration the anticipated Foreign exchange inflows / outflows in the form of Exports / Imports.
- 3.3 The tenure of the forward contract shall be decided considering the tenure of the underlying Foreign Currency transaction, generally not exceeding five years.
- 3.4 The decisions regarding Foreign Exchange transactions shall be made in the Registered Office only.
- 3.5 If the imports are under CAD/DAP/LC, and the timing of the outflow of the foreign exchange is indeterminate, hedging shall be done taking into consideration the prevailing Foreign exchange market conditions.
- 3.6 Derivatives if found required to hedge positions, could be entered only with the prior approval of the Board of Directors.
- 3.7 Foreign Currency Transactions shall be recorded in accordance with the guidelines laid down in Accounting Standards.
- 3.8 Day-to-day decisions regarding booking/cancelling forward contracts or booking/unwinding option contracts shall be made with the approval of the President and the documents in respect of the foreign exchange transactions shall be executed as per the authority given by the Board of Directors.
- 3.9 The officer-in-charge of Treasury Operations at the Registered Office will maintain a detailed database of all hedges obtained bank-wise and arrange for utilization/ cancellation of the same as in tune with the above said Objectives and Policy decisions.

4. REPORTING & REVIEW

- 4.1 The details of foreign currency loans/Foreign Exchange Derivative Contracts done in the immediately preceding quarter shall be submitted to the Board at the meeting to be held in the succeeding quarter.
- 4.2 Periodical Audit of the Foreign Exchange Transactions and Hedging carried out, would be done by the internal auditors of the Company and reported to the Management.
