



RISK AND OPPORTUNITY

One of the ways through which we address our business risk is by innovation in our product line, marketing, and supply chain.

Risks and Opportunities

For a company as large and widespread as ours, the emergence of fast-evolving digital technologies, increased regulatory pressure, and global economic uncertainties are key factors in the landscape of current risks. We prioritise risks related to increase in operational costs, occupational health & safety, and environmental protection among others. On a case-to-case basis, we also address the macroeconomic factors, including economic and political developments and natural calamities that affect the industrial sector generally. Other risks such as legislative changes resulting in a change in taxes, duties, and levies, whether local or central, that impact business performance and relative competitiveness of the businesses are also majorly focused on.

Expanding our market reach will eventually also result in exposing ourselves to an increasing degree of risk due to climate change, which can impact our operational performance, financial performance, and overall sustainability. Our Board level risk management committee is in place under the chairmanship of an independent director. The role of this committee is to identify potential risks and develop mitigation strategies. The Board and Senior Management keep an eagle-eye view on business activities to identify probable risks that might arise and are actively involved in developing strategies to mitigate them. Additionally, we have procedures in place for guidance in risk management and to conduct regular trainings on Enterprise Risk Management to create awareness in the organisation as

a whole. We provide insights into risk definition, risk identification, risk rating, risk classification, risk prioritisation, risk mitigation, control, and review during these training sessions.

Business risks

Some of the major business risks we face are as follows:

- Competition from retailers through their private label offerings and extended promotional activity
- Expanding international operations leading to various regulatory, economic and political risks
- Operational risk resulting from disruption by labour unions, strikes, and work stoppages
- E-commerce, emerging as a new distribution channel, may increase fraud risks in supply chain (in areas such as counterfeiting)
- Outsourcing risk with increasing reliance on third parties for key business functions such as manufacturing, sales, and R&D
- Risks associated with product liability, and recalls, resulting in legal proceeding and tarnishing brand name
- Reliance on the performance of certain flagship products
- Increasing consumer activism through social media may hamper brand positioning and reputation, thereby driving the sales down
- Risks related to the infringement of intellectual property rights as a company may be unable to protect current and future brands and products

- Increased product safety and quality concerns owing to the artificiality of ingredients and, contamination and deficiency in products
- Major upheavals, such as loss of facilities, diseases, strikes, and other natural disasters, which can affect national as well as international operations.

Addressing business risks

We respond to the instability that we encounter in the global markets, the sluggish growth rates, and market fluctuations, through judicious cost-control and commodity tailwinds. We launched new products such as, Godrej No. 1 Germ Protection soap, and a natural platform under the range of products in Goodknight to name a few. We backed our efforts by competitive media investments, consumer engagement initiatives, activation programmes, and communication campaigns to drive growth. In certain markets, we also adopted practices such as lower contractual advertisement and promotion spends.

Other market specific strategies include launch of cost saving projects, such as Project Symphony in Chile. Our go-to-market approach has been resilient and dynamic, and we are driving growth across all our businesses. Furthermore, we ensure that none of the products we sell are banned in the markets that we cater to. Our efforts were driven towards increase market penetration in emerging markets through innovative launches, awareness campaigns, and activations driven by robust margin

expansion and improving consumer demand in rural India.

Along with business risks, here are some of the sustainability risks we face as a consumer goods manufacturer and our approach to address them.

Supply chain risks

With a vast and extensive supply network comes the additional responsibility of ensuring every member of the value chain is carrying out business activities in the most efficient manner possible. It becomes imperative for us to evaluate and select our suppliers keeping in mind their environmental performance among others because failure to do so may result in adverse effects.

Addressing supply chain risks

Our Supplier Risk Assessment helps to identify and mitigate risks that could come up along our value chain. Critical suppliers are segregated based on their monopoly as well as those that could have a huge impact on our overall business. We carry out our own assessments as well as employ the services of a third party to assess their quality, economic, social, and environmental performance. The key risks identified are then mitigated through various approaches. We also build the competency of suppliers through our training and capacity building programmes. As a method of motivating and means of positive reinforcement, we recognise and award our suppliers and distributors that demonstrate exemplary performance. We have also developed a [Sustainable Procurement Policy](#) that includes recognised international standards and is applicable to all our suppliers. We are working closely with our suppliers to monitor and better their sustainability performance.

Environmental performance

With a call to action by major nations and Governments alike to reduce the impact of industries on the environment, we must run our operations in the most efficient manner either by improving processes or by employing newer and cleaner technologies. The costs associated with non-compliance and side-stepping local laws and regulations carry significant monetary fines as well as reputational damage.

Addressing environmental risks

We focus on energy and water conservation, GHG mitigation, waste minimisation, and use of renewable energy to tackle climate change. We have a dedicated environmental sustainability team, and they are dedicated to studying and identifying risks and opportunities for our manufacturing facilities spread across the globe. After identifying risks and opportunities, the team proposes necessary action to be taken. This has been working successfully, and several measures proposed by the team have been implemented and yielded excellent benefits.

Natural resources

Dependence on natural resources is a long-term economic threat as well as a threat to the environment considering their limited availability. There is an additional pressure to source raw materials from suppliers who meet sustainable agriculture and environmental guidelines. Water management is another similar issue that affects not only the rate of growth of production, but also the local communities in which we operate.

Addressing natural resources challenges

As a part of our efforts to sustainably source natural

resources, we strongly promote and develop materials that are not energy and water intensive and opt for materials that emit lesser GHGs. We are progressing towards looking at our value chain in a cyclical manner by focusing on lifecycle costs and preferring 100 per cent recyclable and renewable alternatives. We understand the problems caused by shortage of water and have invested in an integrated watershed development project in the drought prone region of Siddepet district, Telengana, India, to help restore the ecological balance of the region.

Community unrest

Being a resource-heavy industry, we must be especially aware of our consumption and production patterns keeping in mind the communities that work around our factories. Our business activities must not come in the way of their ability to live a healthy life. Failure to do so may result in agitations and unrest, along with regulatory sanctions.

Addressing community unrest

To better understand our community stakeholders, we carry out a detailed community needs assessment at our plant locations. We work closely with the community members to understand their priorities and work towards the overall development of the region where we operate in. As a result, we have streamlined our development activities and run a number of community initiatives to address the immediate needs of the communities we operate in across our locations in India. We primarily invest in education, water, sanitation and skill building initiatives in villages in and around our manufacturing facilities.

Opportunities

3×3

Strategy is our business approach

80

Countries where GCPL has a prominent presence

We believe that every impending risk works like an opportunity turned inside out. The 3×3 strategy of building presence in the emerging markets of Asia, Africa, and Latin America across 3 product categories (home care, personal wash, and hair care) in itself presents great opportunities. We have been persistently expanding our businesses and market reach in these regions building upon short-term and long-term growth opportunities. Emerging markets account for a majority of the world population with a growing section of upper-class income families. These consumers are interested in purchasing consumer products previously unavailable in the region. As a leading consumer goods company, this scenario presents a great potential to acquire a significant share of this growing market. The FMCG sector in itself has not reached emerging markets. We constantly adopt better tools and strategies for market penetration to explore these economies.

Although climate change imposes great threat on businesses world over, it has been the key driving force towards our sustainability approach in business. We are cognizant of the fact that this shift in business practices and lifestyles at large also presents a sea of opportunities for product innovation and access to newer markets. We understand the pulse of this movement and are actively tapping markets with products that address these needs and incumbent pressures. As one of the risk mitigation initiatives on both climate change and operating costs, we replaced existing fossil-fuel based boilers with biomass briquette-based boilers at our manufacturing unit located at Malanpur, Madhya Pradesh, in 2016.

This not only reduced operating costs but also increased the dependency on renewable energy while reducing our carbon footprint to a large extent.

The National Mission on Enhanced Energy Efficiency (one of the 8 missions of National Action Plan on Climate Change) targets various energy-intensive industries, such as steel, cement, chemical, and pulp and paper etc., to achieve higher levels of energy efficiency. While the consumer products (FMCG) sector does not yet fall under the purview of this programme, there is a probability that this programme would be extended to the FMCG sector and hence is a potential opportunity for GCPL. The existing regulation for energy-intensive sectors is called Performance Achieve and Trade (PAT) mechanism. Under this mechanism, baseline energy intensity levels of companies within the industrial sector are assessed. Based on the industry average, the Bureau of Energy Efficiency (BEE), a regulatory body, sets a target. If a company exceeds the set target, they can sell in the form of credits, and if they fail to achieve the target, they have to buy the credits. We are prepared for this, and our performance is improving year after year. Our major manufacturing facility located at Malanpur has also been awarded CII–GreenCo Gold certification for its overall performance on environmental sustainability indicators.