AFCONS INFRASTRUCTURE LIMITED

FOREIGN EXCHANGE (FOREX) POLICY

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Flow of applicability of the Policy to the Company

Sr. No.	Description	Approval Date
1	Adoption of New Policy at Board Meeting	March 24, 2015
2	Revision to the Policy at Board Meeting	February 13, 2025

1. Introduction

Afcons Infrastructure Ltd (AIL) has presence in entire spectrum of Infrastructure Construction in India. AIL also has significant overseas presence with projects under execution / delivered in 30 countries across, South Asia, Africa, Middle East and CIS Countries. The Company is into Construction business and primarily executes projects through the parent company AIL. However, to qualify the technical requirements in certain projects the Company (AIL) is required to form Joint Ventures. Similarly, in certain countries Company is required to incorporate a local subsidiary for undertaking any job locally in that country. So, all the Joint Ventures & Subsidiaries of AIL are formed out of the requirement of business but are directed towards single segment of Construction business. The Company is looking at overseas market in a big way and aims to achieve 25% - 30% of its turnover from overseas on a sustainable basis. Company's business activities inter-alia also includes import of materials, components, Capital Equipment's like Machineries for construction activities etc. which are linked to international prices and major international currencies. One of the risks in foreign dealings is currency risk. Currency risk or exchange rate risk is a form of financial risk that arises from the potential change in the exchange rate on one currency in relation to another. In foreign currency, the company avails long term borrowings in the form of ECB and Foreign Currency term loan (FCTL), while the Short-Term borrowings consist of PCFC, Buyers Credit and Letter of Credit etc. The company borrows in foreign currency primarily to take advantage of interest rates, and this again leads to similar risk. Afcons, it's JVs and Subsidiaries are open to risk from movements in foreign exchange rates and related interest rates. This needs to be managed efficiently to minimize the risk and maximize the returns.

1.1 **Objective of the Policy** -The Company is into business of infrastructure constructions and risks related to foreign exchange should be hedged in such a manner that main business is protected from the adverse movement in exchange rates. Also to ensure that Foreign Exchange Risks are effectively identified, assessed, monitored and managed and is consistent with the overall objectives of the Company and in compliance with the legal requirements and regulations of Reserve Bank of India. The company does not intend to make profit from such hedging activity; any profits arising from this will be incidental.

1.2 **Motto** - To protect Rupee value of foreign currency exposures from adverse impact of fluctuations in exchange rates and interest rates at minimum hedging costs. Importantly, impact of Forex fluctuations on the Company's profitability and finances is to be considered to mitigate the risk.

1.3 **Identification and Measurement –**

- Indian National Rupee ("INR") is the functional currency of the company. Any other currency shall be considered as foreign currency.
- All receivables and Payables of the company which inter alia includes but not limited to payments or receipts related to exports, imports, foreign project advances, borrowings, trade credit, Investments, dividends etc. in any other currency than INR constitutes foreign exchange risk for the company.

- The company is likely to have following nature of exposures:
  a) Export earnings
  b) Advance received against exports
  c) Import and other payments
  d) Buyers Credit/ Suppliers Credit/ Letter of Credit
  e) PCFC
  f) Foreign Currency Borrowings

2. Risk Identification

2.1 Borrowings in Foreign Currency

- Cash Flow Currency Rate Risk - The Company borrows in foreign currency to take advantage of interest rates and this again leads to financial risk that arises from the potential change in the exchange rate on one currency in relation to another. This is basically a risk which translates into actual cash flow for the company.

- Cash Flow Interest Rate Risk – Generally the interest rate is linked to SOFR / EURIBOR on borrowings in foreign currency. SOFR / EURIBOR moves as per policy rate of the related economies and leaves us with risk of Interest rate movement. This again is a risk which translates into actual cash flow for the company.

- Balance Sheet Translation Risk – This is a risk which does not amount to cash outflow; however, gains or losses are to be recorded in the books of accounts related to exchange rate movement on the reporting date.

2.2 Foreign Project Trade Flow in Foreign Currency

- Cash Flow Currency Rate Risk for Surplus Inflow to India - Risk that arises from the potential change in the exchange rate on receiving currency in relation to Indian Rupee. This risk translates into actual cash flow for the company.
- Balance Sheet Translation Risk - This is a risk which does not amount to cash outflow; however, gains or losses are to be recorded in the books of accounts related to exchange rate movement on the reporting date.
- MTM – Accounting treatment towards balances in EEFC Account towards foreign currency Inwards - This represents the liquidity of cash holdings in account in a currency other than in INR. There is a risk that on the monthly closing dates, the holdings need to be adjusted at the rate prevailing on the closing date, which is a exchange loss/gain. Passing of necessary entries in books of account for gain or loss in the currency rates will be required.

2.3 Receivables from Indian Client in Foreign Currency

- Cash Flow Currency Rate Risk - Risk that arises from the potential change in the exchange rate on receiving currency in relation to Indian Rupee. This risk translates into actual cash flow for the company.

- Balance Sheet Translation Risk- This is a risk which does not amount to cash outflow; however, gains or losses are to be recorded in the books of accounts related to exchange rate movement on the reporting date.

2.4 Payables to Vendors in Foreign Currency in HO & Indian Projects Books

- Cash Flow Currency Rate Risk - Risk that arises from the potential change in the exchange rate on receiving currency in relation to Indian Rupee. This risk translates into actual cash flow for the company.
- Balance Sheet Translation Risk - This is a risk which does not amount to cash outflow; however, gains or losses are to be recorded in the books of accounts related to exchange rate movement on the reporting date.

2.5 Revaluation of Foreign Currency in the country of Operation:

- Revaluation of Foreign Currency in the country of Operation: There are incidences when the central bank of the foreign country, where the company is operating undertakes revaluation / Introduction of new currency in the country, thereby replacing the old currency with respective change in currency values
- Cash Flow Currency Rate Risk – Risk might arise from the potential change in the currency and its value, thereby impacting the local currency payments. There might be a potential risk of cash outflow for the company.
- Balance Sheet Translation Risk – This is a risk which does not amount to cash outflow, however gains or losses on account of currency revaluation needs to be accounted for in the books of accounts.

3. Hedging Strategy

Foreign Exchange Market is very volatile. Hence, we will not follow any static policy on foreign currency risk management. For effectively calculating the exposures, we have bifurcated the computation in two parts.

Part – 1 (Trade Flows)

In overseas projects, AIL ensures that all payables are undertaken in the same currency as receivables, ensuring limited risks to net exposure. Accordingly, the company assesses the outstanding unhedged exposure and follows the RBI directions with respect to provisioning norms. The exposure is calculated on net receivables (billed & booked) against actual payables (including advances and retention), actual foreign currency borrowings

The Reserve Bank of India (RBI) has issued guidelines, instructions, and directives primarily to banks on UFCE ("Unhedged Foreign Currency Exposure").

As per the RBI, Directions 2022, the company is required to undertake submission of UFCE statement on quarterly basis to member Banks (Format as Annexed herewith – Annexure 1). This is a statement that outlines an Entity's Foreign Currency Exposure (FCE) after removing items that are effective hedges against each other. When estimating an entity's UFCE, banks consider two types of hedges: financial and natural. A natural hedge is a strategy that aims to reduce risk by ensuring foreign currency liability is offset against foreign currency receivable.

"Natural hedge" here means a hedge arising out of the operations of the company when cash flows offset the risk arising out of the Foreign Currency exposure (FCE).

"Foreign Currency Exposure (FCE)" mean the gross sum of all items on the entity's balance sheet that have impact on its profit and loss account due to movement in foreign exchange rates movement in foreign exchange rates.

Computation of UFCE:

a. Bank shall require the Foreign Currency Exposure (FCE) at quarterly Intervals and audited statement for at least one quarter.
Note: For arriving at the foreign currency exposure of entities, the banks assess their exposure from all sources including foreign currency borrowings and External Commercial Borrowing shall be taken into account.

b. Banks shall determine the potential loss to an entity from UFCE using the largest annual volatility in the USD-INR exchange rates during the last ten years *(as of Jan'25, the Largest Annual Volatility (LAV) in USD/INR for last 10 years is 12.23%)*. These rates are available on FEDAI (Foreign Exchange Dealers Association of India) website.
Note: The Unhedged Foreign Currency Exposure (UFCE) in currencies other than USD shall be converted into USD using the current market rates for determining the potential loss from UFCE.

c. Banks shall determine the susceptibility of the entity to adverse exchange rate movements by computing the ratio of the potential loss to entity from UFCE and the entity's EBID over the last four quarters as per the latest quarterly results. (EBID – Standalone Financials PAT + Interest on Debt + Depreciation)

d. Accordingly, in case the potential loss (net unhedged exposure) is above 15% of the EBID (calculated on Annual Basis), incremental capital provisioning shall be required to be undertaken by banks.

e. For Example: With respect to the last UFCE Statement submitted to banks for Sept'24,
The Net UFCE exposure was INR 223.74 Crores.
LAV - 12.23%
Likely Loss: (223.74 * 12.23%) - Rs.27.36 Crores
EBID (PAT + Int on Debt + Depreciation) – Rs. 1348 Crores
15% of EBID – Rs. 202.29 Crores
Action: Since the likely loss is less than 15% of FY 2024 EBID, No separate hedge / provisioning required.

<u>Being a net exporter, Afcons enjoys an effective natural hedge against currency fluctuations owing to which, it intends not to hedge the import liabilities pertaining to raw materials, stores & spares, consumable and other regular imports. Afcons net exposure have not exceeded the 15% (provisioning) threshold in past and its net exposure has been well within limits.</u>

Strategy Forward:

In case the exposure is exceeding the 15% threshold (as computed for the last quarter), Afcons shall undertake within the quarter end to suitably hedge by appropriate hedge instruments cover the next 3 months / 6 months (net) exposure, either Receivables or Payables, whichever is more.

<u>Part – 2 (Borrowings)</u>

All ECB / Capex Buyers Credit should be looked at separately, because it is difficult to map Foreign Currency Receivables from Project for Long Duration (3-5 Yrs.). Since, the company has been regularly availing Buyers Credit for short term to long term purposes for both Trade and Capex, strategies for covering risk must be separately monitored. Accordingly, strategies for CAPEX ECBs are separately undertaken, both are mentioned below:

For External Commercial Borrowings as well as Buyers Credit (Capex) : The following strategy to be undertaken

- For any ECB / Buyers Credit (Capex) , the moment all in cost (SOFR / EURIBOR + Coupon + Hedging Cost + - Currency gain/loss if any) equals SBI One Year Marginal Cost of Lending Rate (MCLR); it is advisable to cover up 20-25% of the Loan. Here Hedging Cost includes the Interest Rate Cover plus Currency Risk Cover together.

- Further once the all in cost (SOFR / EURIBOR + Coupon + Hedging Cost + - Currency gain/loss if any) goes 1% below SBI One Year MCLR; it is advisable to cover up another 50% of the Loan Amount.

- Further once the all in cost (SOFR / EURIBOR + Coupon + Hedging Cost + - Currency gain/loss if any) goes 2% below SBI One Year MCLR; it is advisable to cover up the balance Loan Amount.

These are all guidance only; the management can take view based on market movement. Treasury in Consultation with different banks and based on market perception should come up with suggestion for Hedging. Only on Approval from Managing Director / CFO any Hedging should be done. The approval could be telephonic (followed by email or signature), email or through signature.

The Treasury should prepare a hedge document before undertaking any hedging transaction, giving particulars of the underlying transaction, the risk intended to be hedged.

4. Risk Control / Hedging - Allowed Instruments

4.1 For Interest Rate Risk

Interest Rate Swaps (IRS) – An agreement between two parties in which one party agrees to pay cash flows equal to interest at a predetermined rate while the other pay interest at floating rate on a notional principal amount for a number of years.

- Afcons has a $ loan payable at 6 months SOFR / Euribor p.a maturing in 5 years
- Afcons enters into an IRS with Bank whereby it effectively transforms its floating rate liability to a fixed rate liability.
- Afcons enters into a 5 year interest rate swap with Bank where
- Afcons pays to bank fixed say, 1.5% p. a. (IRS contracted rate) payable half yearly
- Bank pays Afcons 6 months SOFR half yearly
- 5-year Swap rate is at approximately say, 1.50% p.a.
- This provides Afcons fixed rate liability and is not exposed to interest rate fluctuation.

Forward Rate Agreements (FRA) – Forward Rate Agreement is similar to IRS except it is available for only one interest payment obligation. In fact, when more than one interest payment obligations are hedged they are called IRS.

Currency Swaps (P+I or I only) – A Currency Swap involves exchange of principal and interest payments in one currency for principal and interest payments in another currency.

- The Principal amounts in each currency are usually exchanged at the beginning and at the end of life of Swap.
- The interest rates in both the currencies are fixed.
- For Example - Afcons enters into a Currency Swap with Bank where it receives INR by swapping USD
- Afcons gives USD to bank and receives INR as per Spot Rate. Same Spot Rate is fixed for all future liability of Afcons (P+I or I only as per the contract)
- Bank pays Afcons SOFR + Spread and in return Afcons pays to Bank Fixed Rupee Interest rate
- Periodicity of Interest exchange is as per the SOFR fixation terms.
- Premium for fixing the forward rate (Spot Rate mentioned above) for Principal Repayment + Interest or only for Interest is also serviced together with the periodical Interest payment.
- On Instalments / Principal repayment date (P+I or I only as per the contract) Afcons receives USD from Bank and gives INR as per pre-agreed forward rate (Spot Rate mentioned above)
- This provides Afcons fixed Interest rate liability in Rupees and Currency Fluctuation Risk is also covered. Effectively Currency Swap (P+I) makes the loan a Rupee Loan.

4.2 <u>For Currency Rate Risk</u>

Forward Contract is a contract between two parties to buy or Sell a specified amount of underlying asset at a specified price for a specific Future date. It is available for any duration.

- Advantage – Simple, and requires no outlay of funds upfront. No exposure to market volatility.

Principal only Currency Swaps (POS) – It is similar to Forward Contract except it can be structured as per the requirement of instalment payment at staggered periods of more than a year.

- For Example - Afcons enters into a POS with Bank where it receives INR by swapping USD
- Afcons gives USD to bank and receives INR as per Spot Rate. Same Spot Rate is fixed for all future liability of Afcons (Principal only)
- Premium for fixing the forward rate (Spot Rate mentioned above) for Principal Repayment is paid periodically (quarterly or half yearly)
- The floating SOFR risk and currency risk on the interest amount is unhedged here.
- On Instalments / Principal repayment date (Principal only) Afcons receives USD from Bank and gives INR as per pre-agreed forward rate (Spot Rate mentioned above)

Plain Vanilla Put / Call Options – An option is a financial contract in which the buyer of the option has the right, but not the obligation, to buy or sell an asset, at a pre- specified price, on or up to a specified date. Premium is to be paid upfront.

Structured Options – A Structured Option is an agreement to exchange a specified amount of one currency for another currency at a Foreign Exchange Rate determined in accordance with the mechanisms set out in the structure on an agreed date (Expiry Date). The mechanism(s) for determining the applicable Foreign Exchange Rate and other conditions of a Structured Option will depend on the particular product. Depending on the Structured Option that is created, there may be certain conditions attached to one or more of the options within the structure. Premium is to be paid upfront.

4.3 Balance Sheet Translation Risk - Natural Hedge Matching with Other Receivables.

5. Revaluation of Position

- The open positions (un-hedged cash flows) are to be marked-to-market by applying closing rates.
- Covered positions are to be valued at cover rate, which will not change during the life of the cover. Cover rate for forward contracts is contracted rate.
- Covered rate for plain vanilla options is the strike rate.
- For other option structures permitted under the Policy, worst-case rate is the rate for valuation

6. Monitoring of Position

Trade Flows – Net Position worked out by the treasury after considering, the UFCE (Unhedged Foreign Currency Exposure) statement being prepared on Quarterly basis.

It should be reviewed quarterly by CFO for taking any Hedging call.

Borrowings In Foreign Currency - MTM Position should be accounted on a Monthly basis by the Treasury Team. A Quarterly Report should be given to CFO. Quarterly Report should be given to CFO / Managing Director for taking any hedging call.

7. Power Delegation

Signing Of Board Resolution for entering into Forex Transaction	Directors, Mr. Gaurang M Parekh- Company Secretary
Treasury Team for dealing with Banks	Mr. Sachin Sharma, Mr. Abhishek Kabra, Mr. Prasad Shenai
Signing Authority for all the deals	Mr. Ramesh Kumar Jha
Reporting Authority	Mr. S.Paramasivan

8. Reporting

Decision supporting: Enabling systems for arriving at forex exposures and MTM valuations. Currently, we have installed a FX terminal from “Cogencis” which gives us live forex rate. We have linked the live rates of terminal to our Microsoft Excel file of borrowings; thus, we get live MTM position on all our borrowings on a continuous basis.

Quarterly reports should be submitted to CFO / Managing Director on the covered and open positions, potential profits and losses after considering benefit of interest rate differential. Here for working out interest differential Rupee Rate shall be considered at SBI One Year MCLR + 1% (for all loans).

Quarterly report with Treasury's analysis of market developments, and complete risk status of balance sheet exposures needs to be submitted to the CFO / Managing Director.

9. Regulations and Compliance including Accounting Policy & Disclosure

9.1 Regulatory review and compliance

Treasury team shall review the Policy regularly and make changes deemed to be necessary in light of emergence of new market instruments, changes in business conditions, changes in regulatory framework etc. and propose the same to CFO, who shall post review table the same for onward approval of Board for approval

9.2 As per the Provisions of Accounting Standard

The accounting policy and disclosure norms adopted in relation to transactions for foreign exchange management shall be guided by relevant mandatory Accounting Standards. Accounting for the effects of changes in foreign exchange rates and hedging costs for all hedging instruments shall be treated in accordance with IND Accounting Standards as mentioned below:

- IND AS 21: The effects of changes in Foreign Exchange Rates
- IND AS 23: Borrowing Costs
- IND AS 109: Financial Instruments

10. Cancellation

Hedged position can be cancelled (if possible) in a situation where it is clear that Company will save money by cancellation of hedge. While cancelling any hedged position, Treasury must take into account the guideline issued by RBI, which restricts rebooking of cancelled forward contracts by companies.

All the Policy provisions are subject to compliance with regulatory requirements. As and when there is a change in the regulations / guidelines issued by Reserve Bank of India, the Policy needs to be modified and adapted to the new developments. The Policy may be reviewed at least once in a year.

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