1. Objective

The objective of this SOP is to describe the process for Payback Period ("PBP") calculations & decision making process for investments, including types of investments that require PBP analysis, pre-acquisition review, post-acquisition review, etc.

2. Definition of Payback Period

Payback period in simple terms means "time required to recover the cost of an investment".

Payback period = Cost of the investment/Annual cash inflows (savings)

3. Scope of the policy

i. This SOP will be applicable to investments **above ₹ 5 lacs** which are approved by CEO in the annual capex budget.

ii. Pay-back period calculations will be done for following types of investments:

a. Building

b. Grape cultivation – Own land Vs procurement from contracted farmers

c. Oak barrels

d. Commercial Vehicles

e. Plant & machinery - Refer **Annexure 1** for list of assets covered under plant & machinery.

4. Construct of the policy

This SOP has been categorized into two sections, which are:

A. Pre-acquisition review

B. Post-acquisition review

Section A: Pre-acquisition review

Before initiating any investments (of the above mentioned category), the pre-acquisition review should be done. The PBP calculation template should have three tabs viz-

1. <u>Summary:</u> Providing synopsis of the project
2. <u>Cash flow:</u> Detailing cash outflows and inflows with effect on EBITDA, PBT and PAT. Cash flows should also be discounted taking the interest rate as base for discounting. Thus, this sheet will calculate simple payback period as well as discounted payback period. Discounting rate for each year will be decided after consulting the CFO.
3. <u>Interest calculation:</u> Interest calculation has to be based on current rate of interest for the total amount of investment.

Pre-acquisition review should be done by Head of Projects and Winery Finance dept., based on inputs provided by the user department and it should be approved as per the following authority matrix-

Cost of investment	Approval required
Upto ₹ 15 lacs	1. DGM – Finance & accounts (Winery) 2. EVP – Winery Operations
Above ₹ 15 lacs	1. DGM – Financial planning & analysis 2. CFO 3. EVP – Winery Operations

After the approval as per the above mentioned matrix, it will be sent to CEO for final approval, if calculated payback period is 5.5-7 years. Assets having PBP above 7 years should not be purchased. To summarize:

Payback period	Line of action
Below 5.5 years	Automatic approval
5.5 - 7 years	To be approved by CEO
Above 7 years	Not to be purchased

For investments which are not approved by CEO in annual capex budget, a specific approval of CEO should be taken on PBP analysis irrespective of cost of the investment and pay back years.

Section B: Post-acquisition review

1. Post-acquisition review should be done for assets purchased from FY14 and costing above ₹ 40 lacs.
2. Post-acquisition review will be done every financial year, till the cost of the investment is recovered. Post-acquisition review will be done taking initial PBP calculation as a base. For the first year of review, the initial pay-back period factors will be re-calculated for actual period of usage of the asset in that year, to facilitate comparison.
3. Post-acquisition review should be done by Head of project and Winery Finance dept. based on inputs provided by the user department and it should be reviewed as per the authority matrix defined for pre-acquisition review.
4. After the approval as per the above mentioned matrix, it will be sent to CFO and EVP-Operations for their review. Timelines for sending the post-acquisition review to CFO and EVP-Operations will be 15th July of each financial year.

Exceptions to the policy:

Investments required:

1. For capacity/plant expansion
2. To comply with the statutory norms
3. To meet turnover targets
4. To meet other quality related requirements

Annexure 1: Plant & machinery will include, but not limited to the following:

- Bottle washing machine
- Bottling line
- Capping machine
- Capsulating machine
- Carton sealing machine
- Conveyor
- Corking machine
- Filler machine
- Foiling machine

- Labeling machine
- Neck freezer machine
- Ozone/Nitrogen generator
- Pressing machine, etc.

Additionally, PBP analysis for other machinery should be done as per management's directions.