



ESG

REPORT

2021-22

VST INDUSTRIES LIMITED

INNOVATIVE. RESPONSIBLE. FOCUSED.

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The key to understanding the future is one word: Sustainability

About this Report

VST Industries Limited is pleased to present its first ever full-fledged ESG (Environment, Social & Governance) report for all our stakeholders. We view reporting on non-financial parameters as an important means of communicating our performance and vision with our stakeholders. This report gives our stakeholders an insight into the company's governance, strategy, prospects and ESG performance for the FY 2021-22.

(GRI 102-45, GRI 102-46, GRI 102-48, GRI 102-49, 102-50, GRI 102-51, GRI 102-52, GRI 102-54)

Reporting Period and Principle

This Report has been prepared in accordance with GRI standards: Core option. We have applied the following aspects to determine relevant topics that define the report content and ensure quality of information:

- GRI guiding principles for defining the content: Materiality, Stakeholder Engagement, Sustainability Context and Completeness
- GRI guiding principles for defining the quality: Balance, Clarity, Accuracy, Timeliness, Comparability and Reliability.

This report includes our performance on select environmental, social and governance parameters for FY 2021-22 and dives into our strategy, goals, and targets for upcoming ESG initiatives by the Company. Inputs from our stakeholders, both external and internal, have been taken and incorporated as part of the development of this report.

We disclose our performance on business responsibility and sustainability aspects on annual basis through our Annual Report. All our reports for the previous years are available on our website at <https://www.vsthyd.com/mainsite/>.

Reporting Boundary

The report boundary includes both our manufacturing facilities located at Toopran and Azamabad (including our corporate office) in Telangana, India and leaf growing areas spread around Telangana, Andhra Pradesh, Karnataka and Gujarat.

External Assurance

We have also sought external assurance on our first ever ESG report to provide authenticity of the information presented in this report. Ernst & Young Associates LLP has provided independent assurance of the report and its contents using International Standard on Assurance Engagements (ISAE) 3000 (assurance for non-financial information), as set forth in the Assurance Statement included in this report.



Message from Chairman

We are committed to conducting business responsibly with the goal of leading by example in corporate social responsibility through community interventions and infrastructure improvements.

Dear Stakeholders,

It gives me immense pleasure to present you with VST Industries' inaugural ESG report. This report demonstrates how as a company, we have been working tirelessly and responsibly with all the stakeholders to ensure sustainable business operations.

The beginning of this decade has witnessed many unprecedented challenges with the impacts of the pandemic, climate change and the geopolitical tension in war affected countries felt across all economies and all sections of the society. Notwithstanding these limitations, I am optimistic that India will rise above these challenges. I, therefore, look forward to an era of even stronger growth, greater revenues and higher shareholder value.

We have always believed on integrating ESG principles into business decision making which is also reflective in the fact that since inception we have been promoting agriculture in a semi-arid and dry region like Telangana. However, now we have decided to embark on the journey of formally integrating ESG principles into our business strategy across the value chain. Accordingly, we have developed an ESG framework taking into consideration of ESG aspects that are material not only for VST's operations, but also material from the perspective of our internal and external stakeholders. Our ESG framework lays out the necessary foundation to identify various risks & opportunities while setting an action plan for utilizing the opportunities and mitigating the risks. The framework also enables us to measure our progress with respect to relevant key performance indicators and to disclose our progress on ESG objectives and targets for 2030.

The ESG 2030 roadmap supports our enduring commitment to sustainability and value creation for all stakeholders. The roadmap also sets out clear targets to achieve our sustainable development ambitions. We have defined key metrics as well to track our progress towards achieving our goals and are committed to disclose our performance on an annual basis.

We are committed to conducting business responsibly with the goal of leading by example in corporate social responsibility through community interventions and infrastructure improvements. In light of this, your company has installed solar plants at its factories and corporate office as well as in the areas where it carries out its social projects. We have also implemented multiple projects around our CSR focus areas such as health & sanitation, education, and environment sustainability as part of our continued commitment towards the community. The projects are identified taking into consideration community needs and are implemented in collaboration with all the relevant stakeholders to make sure the projects become sustainable post implementation. I would like to conclude by saying that this journey has brought much fulfilled aspiration of becoming an ESG complaint organization. We are committed towards our endeavour to build a capable, sustainable, and scalable company.

I thank all of you for your support that has helped us emerge strong particularly during these challenging times. We look forward to your inputs on this report and our progress.

NARESH SETHI

Non-executive Chairman

Message from MD & CEO

Creating shared value is at the heart of our approach to sustainable development. Our continuous endeavour has been to support the development of systems that protect and restore the environment, improve livelihood of farmers and strengthen resilience and wellbeing of the farming community.



Dear Stakeholders,

I am extremely delighted to present our inaugural ESG report which delineates our contribution towards sustainable development and an endeavour to be recognized as one of the most responsible and innovative organizations. Building on our legacy of corporate responsibility and sustainable practices since inception, we are moving towards creating an equitable and regenerative future for all our stakeholders.

Responsible Governance

We have always believed in maintaining transparency in business decision making, creating robust policies and practices for key processes and systems with clear accountability, integrity, and the highest standard of compliance. We have extended the scope of the CSR committee with the responsibility of overseeing our progress towards an ESG compliant organization. We have institutionalised a robust and comprehensive risk management framework which considers ESG challenges across our operations and value chain. We inspire to shape breakthrough ideas by creating a culture of innovation, to pave the way for impactful outcomes.

Sustainable operations

As a responsible corporate citizen, we also take cognizance of our environmental and social impacts. We not only conform to the limiting values prescribed

under statutory acts and rules, but also go beyond it. We identify and implement technologies that reduce our resource footprint and GHG emission, besides exploring measures to reuse, recycle and use of alternative eco-friendly materials within our operations wherever feasible. During the year under review, we have transitioned from using single-use BOPP films (used as cigarette packaging) with environment friendly biodegradable films.

We are cognizant of the growing concerns on water stress in our community and have focussed on harvesting rainwater and identifying opportunities to enhance reuse and recycle of water. I feel delighted to announce that both of our own manufacturing units are Zero Liquid Discharge. As a climate steward, we have continuously improved upon our energy productivity through energy efficiency measures and will continue to increase share of renewable energy in overall energy mix.

Care for people

We are focused on creating a high-performance culture and equipping ourselves for business growth and excellence. As an equal opportunity employer, we have always strived towards promoting a diverse and inclusive work environment, creating unique and career fulfilling opportunities while adhering to the highest standards on occupational health, safety and human rights. Health and safety remain top priority for us as we are committed towards consistently being 'zero accident' at workplace.

Inclusive Growth

We are fully committed to fulfil our responsibility towards all our stakeholders to the best of our abilities. We continue to adhere to COTPA guidelines and other regulations which promote consumer welfare. We engage in continuous social dialogue with our stakeholders and regulatory community through various policy advocacy measures beneficial to the industry and community.

We believe that a strong community relation is the backbone of a successful and responsible business. We have worked towards improving access to health and sanitation, promoting education and protecting the environment through our community development efforts. During the year, we installed 400 solar street lights and constructed 1,685 household/school restrooms as part of the 'VST Swachh Ghar Mission'. We also extended Covid help to communities as part of the 'VST Cares' mission and provided infrastructural support for ten schools under project 'Gyandeept'. We are also proud to announce that though our flagship 'Swachh Ghar programme' we have constructed over 7,675 household toilets till date across 30 villages resulting in four villages being declared 'open defecation free'.

Sustainable Agriculture

Creating shared value is at the heart of our approach to sustainable development. Our continuous endeavour has been to support the development of systems that protect and restore the environment, improve livelihood of farmers and strengthen resilience and wellbeing of the farming community.

Firstly, we have emphasized on improving farm productivity through soil quality management, ensuring provision of high-quality seeds and initiating mechanization of field activities. We at VST, ensure the pesticide residue levels and TSNAs (Tobacco Specific Nitrosamines) are within international standards.

Secondly, through robust implementation of the ALP code, we have ensured prevention of human rights violations and sustaining decent working conditions.

Lastly, we have aimed at mitigating climate change impacts in curing of tobacco leaves as we continue to discourage deforestation activities and instead upgrade the barn structures. We are also enabling our value chain partners to adapt to climate change by exploring sustainable ways to water crops while protecting the access of the local communities to water resources. For this purpose, we have been adopting various initiatives such as drip irrigation, micro sprinklers for nurseries etc.

We are excited to be a part of this journey, and the journey can only be rewarding with your active support. Your suggestions and viewpoints are invaluable to our progress in further improving our performance and contributing to the sustainable development. I would like to take this opportunity to thank all our shareholders for their continued support and confidence in us and our management.

ADITYA DEB GOOPTU
Managing Director & CEO

Key Highlights

Environment

0.65 tCO₂eq/mnc. *
GHG Intensity (Scope 1+2)

4.15 GJ/mnc.
Energy Intensity

4 KL/mnc.
Water Intensity

1,002 KW
Renewable Energy Capacity

*mnc.- million cigarettes

Social

Zero
Incidents at Workplace

9,000+
Number of contract farmers

INR 1,004 Lakhs
CSR Expenditure

400
Solar street lights installed

7,675
Smart toilets installed

4
Open defaecation free villages

200
Schools supported with mid-day meals

Governance

17%
Gender diversity in Board

50%
Proportion of the Board is Independent

Organization Profile

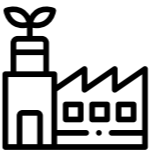
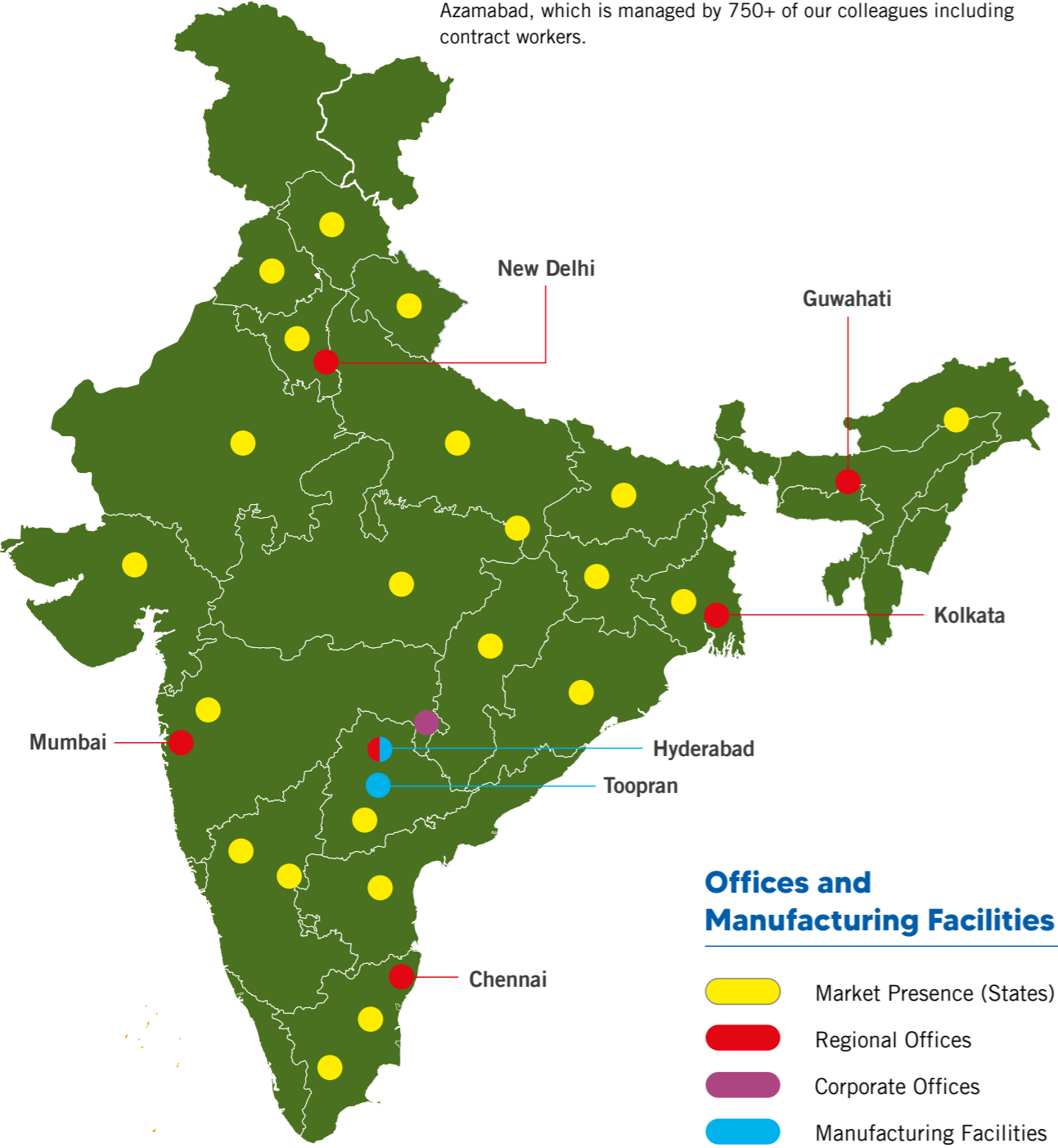


Who We Are

(GRI 102-1, 102-3, 102-4, 102-5, 102-6, 102-7, 102-8)

VST Industries Limited (formerly known as Vazir Sultan Tobacco Company Limited) is one of India's most seasoned cigarette companies with over nine decades of operation. Incorporated on 10th November 1930, we are involved in manufacturing and marketing several cigarette brands, as well as trading unmanufactured tobacco.

We are an associate undertaking of British American Tobacco Plc., the global leader in combustibles. We are a publicly listed company, headquartered in Hyderabad, India, catering to market requirements covering 80% of the geographical footprint in India through the support of a reliable and trusted network of distributors, wholesale dealers and retailers and our manufacturing facilities located at Toopran and Azamabad, which is managed by 750+ of our colleagues including contract workers.



02 Manufacturing facilities located at- Azamabad and Toopran



06 Regional offices in Hyderabad, Mumbai, Delhi, Kolkata, Chennai and Guwahati



850+ Wholesalers



11 Lakh+ Retail Outlets



People Strength
773 employees and workers



Net Revenue
₹1,55,911.71 Lakhs



Products sold
8,340 MNC*

*MNC- million cigarettes

Products and Brands

GRI 102-2

VST meets market demands through numerous brands, customized to meet the tastes of adult consumers in India. Our robust brand portfolio satisfies diverse adult smoker groups across the socio-economic strata. This serves our decades long promise for quality and enjoyment. Our portfolio consists of both Growth Heritage Brands (e.g., Total, Editions) and New Age Brands (e.g., Charms, Special, Moments).

Our Value Chain

(GRI 102-9, GRI 102-10)

Sourcing

Our primary ingredient for manufacturing is the tobacco leaf. We source cured tobacco leaves directly from over 15,000 contract farmers located at Andhra Pradesh, Telangana, Karnataka, Gujarat and Maharashtra. We also source tobacco through suppliers who participate in auctions held across the year, of which a small portion is imported.

Most of the contracted farmers we are engaging with in our supply chain are smallholder farmers. Our long-term contracts with them ensure sustenance in livelihood as well as ensuring reliability in our supply chain.

To produce our end product we require product materials like paper and filters. These are sourced from domestic and international markets.

Operations

Primary Manufacturing Division's (PMD) operations involve threshing of the procured leaf into stems and laminas. The stems and laminas in their individual lines undergo blending with the different grades and a series of mechanical operations including sieving, cutting, and drying are carried out. The blended lamina and stem are appropriately treated before storing in humidified condition.

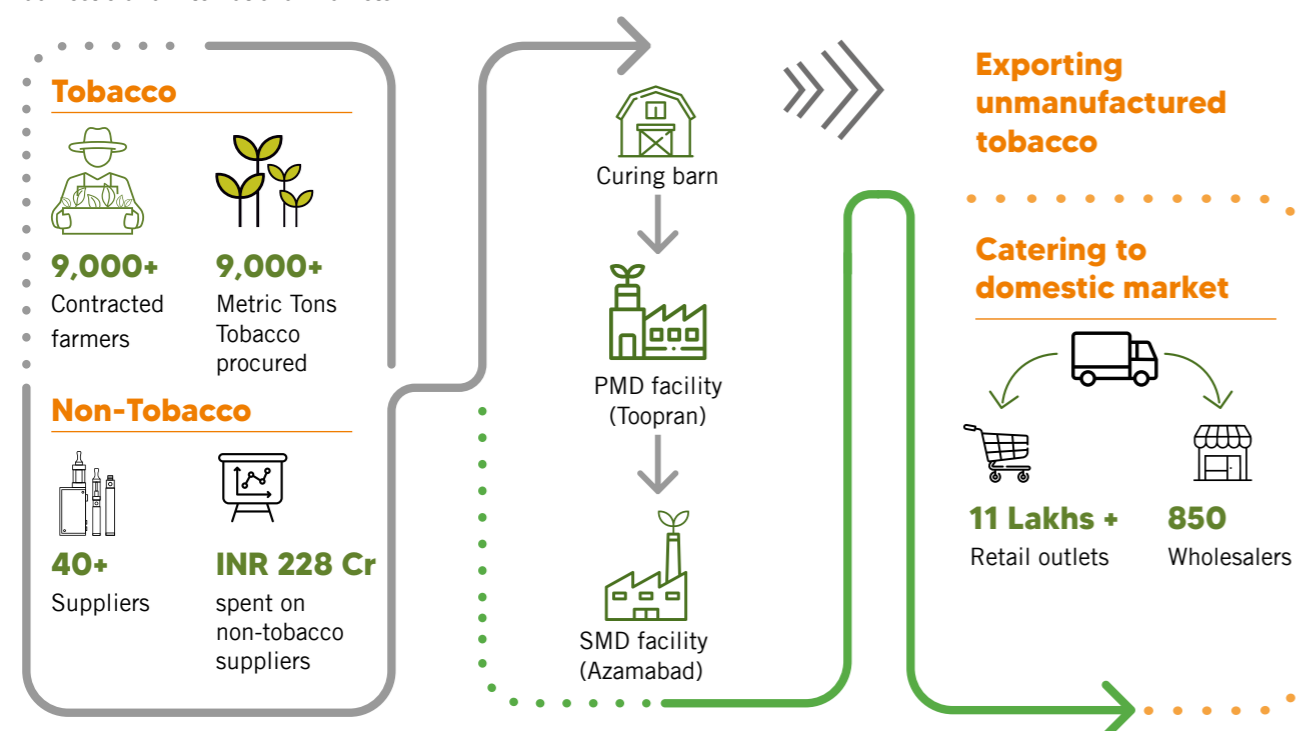
The cut tobacco is then utilized in Secondary Manufacturing Division's (SMD) operations which involves making, packing, wrapping and parcelling.

Serving Markets

Our end products are distributed to more than 80% of the Indian geography with the help of our trusted distributors.

The distributors provide VST products and brands a marketplace for consumers through wholesale dealers and retailers.

A portion of the unmanufactured tobacco is exported to buyers in the international market.



Memberships and Associations

(GRI 102-12, GRI 102-13)

VST is an active member of key industry associations and industry platforms. As members of these associations, we interact with various professional bodies and organizations to understand new perspectives and keep ourselves abreast of the latest industry trends. Our participation on these forums, helps us implement sectoral best practices and strengthens our alignment with applicable standards. We are a part of the following industry associations.



The Federation of
Telangana Chambers
of Commerce and Industry



The Confederation of
Indian Industry (CII)



All india management
association



Tobacco Institute of India

Certifications and Recognitions

Awards and recognitions not only validate our deep commitment to the stakeholders we cater to but also instil confidence amongst us to win consistently. The major awards and recognitions received during the reporting period are given below.





Sustainability Strategy

Across the globe, the people and environment are facing several challenges ranging from climate impact, resource scarcity, population growth and demographic change that is impacting both the ecology and society.

As a responsible corporate citizen, we are cognizant of our responsibility to contribute to an environmentally sound, socially inclusive and well-governed society as we continue to accelerate our own transformation towards a more ESG compliant business environment.

We firmly believe that we must demonstrate our willingness to develop and deliver on a sustainable strategy that ensures long term sustainable value creation. We understand and embrace our stakeholders' interests and social needs in driving towards a sustainable, resilient economy and encourage collaborative efforts in contributing to the achievement of the United Nations Sustainable Development Goals (SDGs).

Stakeholder Engagement








(GRI 102-40, GRI 102-42, GRI 102-43)

At VST, we believe that successful business is about creating and fostering strong relationships. This belief has always helped us to have an inclusive growth along with our stakeholders. Our stakeholder engagement approach is focused on understanding the needs, interests, and expectations of our stakeholders and in the process creating value for both us and our stakeholders. Our engagement encompasses all those who have a direct or indirect influence on our business operations as well as those who are impacted by them.

We believe in open and transparent dialogue with our stakeholders, and this has been the greatest source of input for our growth. On our road ahead, we further plan to integrate sustainability aspects in our regular communications with stakeholders at every level, thus strengthening our mechanism to identify challenges and opportunities.

We continually seek our stakeholders' feedback which helps us increase our understanding and broaden our horizon in improving ESG (Environment, Social & Governance) performance. We understand that stakeholders' interest is growing in how corporations are incorporating ESG aspects into their business, and we will continue to develop and promote ways of capitalising on the feedback of our stakeholders.

The outcomes of communication with stakeholders are shared with respective divisions and actively utilised as valuable insights in our business. Feedback received from stakeholders is assessed to identify critical concerns which are discussed at relevant board committee meetings.

Our Stakeholder	Mode of Engagement	Frequency of Engagement
Employees 	<ul style="list-style-type: none"> Town hall meetings Employee trainings Seminars/webinars Quarterly newsletter Collective bargaining process Health & Safety committee meetings 	Ongoing Annually Quarterly Monthly
Investors 	<ul style="list-style-type: none"> Annual general meeting Interim financial statements Director's report Board meetings Corporate disclosures Press releases 	Annually Quarterly Need basis
Farmers 	<ul style="list-style-type: none"> Seminars/ webinars/Field visits 	Ongoing
Wholesalers 	<ul style="list-style-type: none"> In-person/ virtual meeting Emails 	Ongoing
Local Communities 	<ul style="list-style-type: none"> Training and awareness building programmes CSR activities 	Ongoing
Suppliers 	<ul style="list-style-type: none"> In-person/ virtual meeting Vendor meetings Capacity buildings 	Ongoing
Regulatory Bodies 	<ul style="list-style-type: none"> Official notifications Press releases Meeting with Govt. body as per requirement 	As and when required

Materiality Assessment

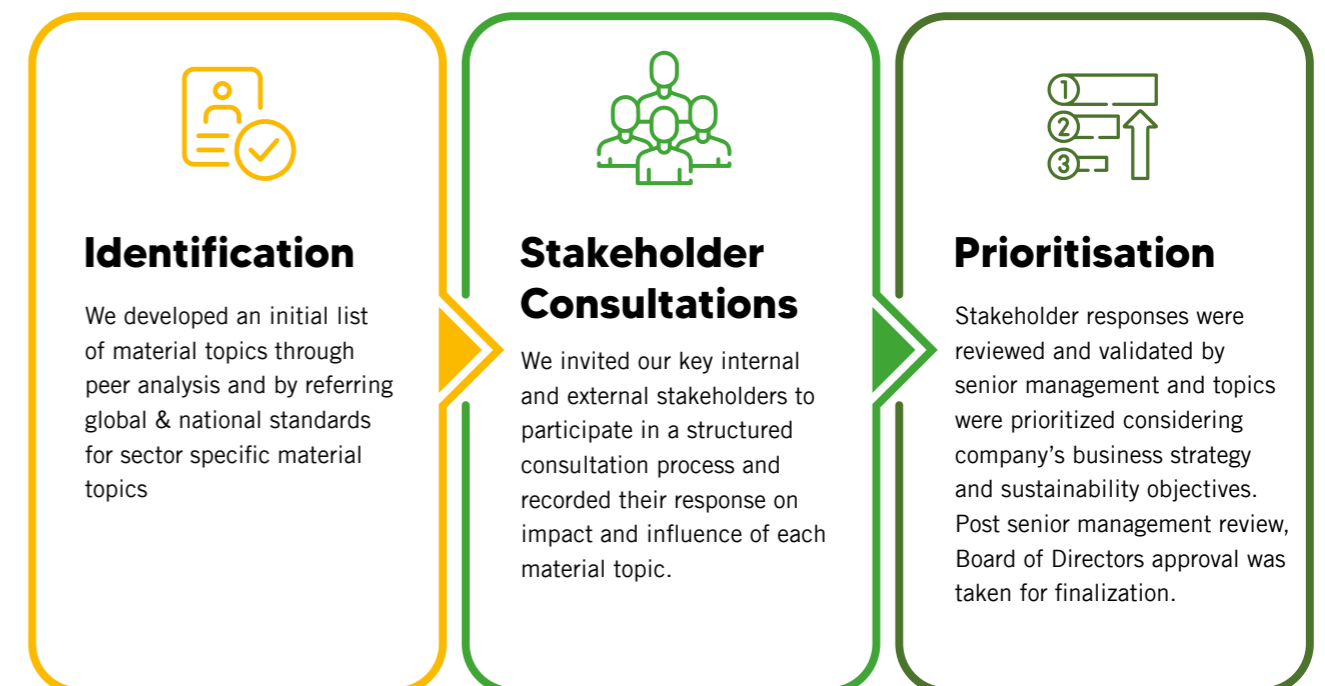
(GRI 102-44, GRI 102-47)

Our material topics are those that could have a direct or indirect impact on our organization's ability to create, preserve or erode economic, environmental, and social value for our organization, our stakeholders and society at large. The focus on 'materiality' is expected to make our ESG reports more relevant, more credible and more user friendly. Materiality assessments assist in creating real value for business and society by identifying, prioritizing the most relevant topics and strategy development through devising action plans, and setting targets.

Materiality Determination Process

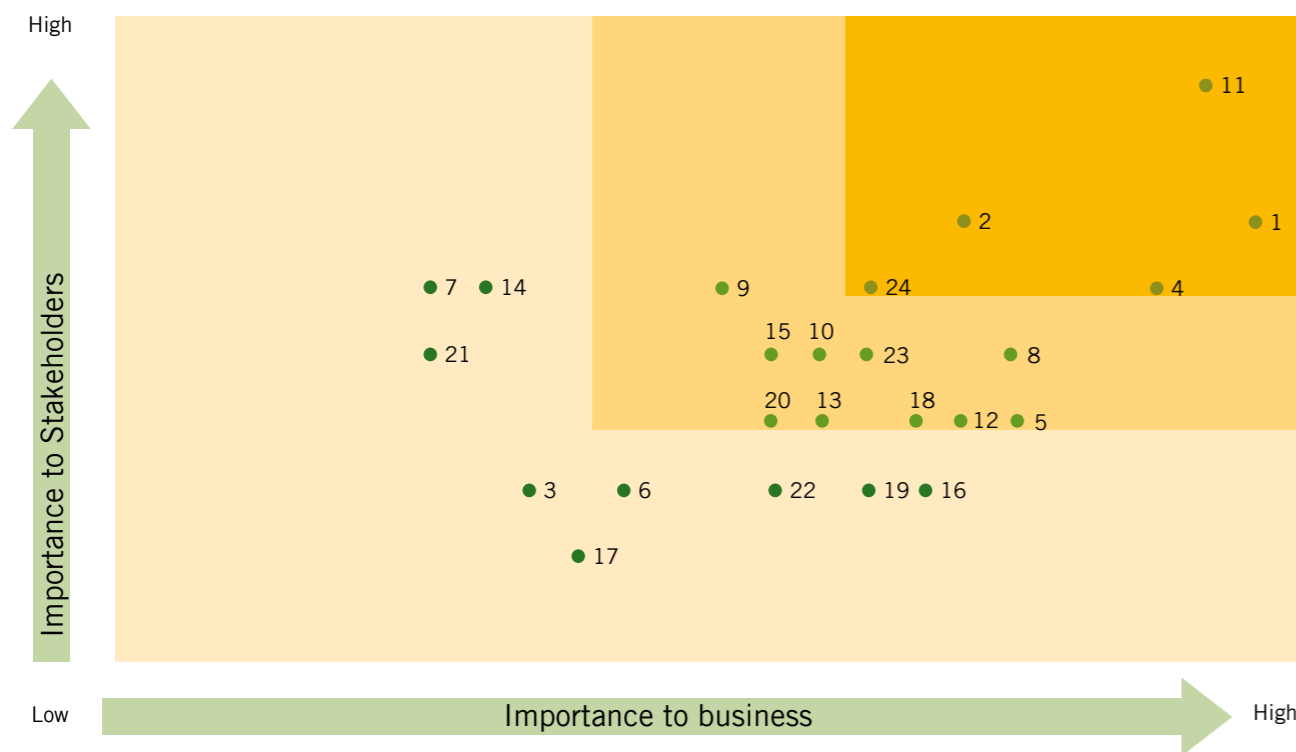
The assessment of material topics is an ongoing process which helps the organisations to determine their material topics depending on their importance to stakeholders and impact on business to create value.

The identification of material topics included, understanding best practices to determine the common issues across our business. A detailed analysis of each of the topics based on their impacts on value chain and risk assessment was undertaken. The assessment of material topics was based on their significance to the organisation's economic, environmental, and social impacts and substantive influence and importance on the decisions of our stakeholders.



Our Materiality Matrix

The materiality matrix presented below plots the ratings of each ESG material topic with x-axis representing importance to business, and the y-axis representing the importance to stakeholders. The relative positioning of each material topic signifies priority assigned to the respective material topics. At VST, we consider all these topics under consideration as material, however priority has been assigned for devising a more effective time-bound topic specific action plan and address the material topics in a phase wise manner.



Material Topics

The material issues have been segregated into five strategic pillars considering the nature of impact and boundary. Further, as a progressive business, we have set short-term and long-term goals for the identified material topics as part of our sustainability strategy.

VST’s strategic ESG pillars and identified material topics



Identified Material Topic	ESG Pillar	Impact Boundary
1 Energy	Sustainable Operations	Manufacturing Facilities & Corporate Office
2 Emissions	Sustainable Operations	Manufacturing Facilities & Corporate Office
3 Climate Resilience	Sustainable Agriculture	Suppliers
4 Water	Sustainable Operations Sustainable Agriculture	Manufacturing Facilities, Corporate Office, and Supply Chain
5 Waste Management	Sustainable Operations Sustainable Agriculture	Manufacturing Facilities, Corporate Office, and Supply Chain
6 Sustainable Material	Sustainable Operations	Manufacturing Facilities & Corporate Office
7 Biodiversity	Sustainable Operations	Manufacturing Facilities, Corporate Office and Society
8 Farmer Livelihood	Sustainable Agriculture	Suppliers
9 Circular Economy	Sustainable Operations	Manufacturing Facilities, Corporate Office, and Supply Chain
10 Human Rights	People & Culture	Manufacturing Facilities, Corporate Office and Supply Chain
11 Health & Safety	People & Culture	Permanent and Temporary workforce and Nearby Communities
12 Employment	People & Culture	Permanent and Temporary workforce, Nearby communities and Society
13 Consumer Welfare	Inclusive Growth	Consumer
14 Littering Prevention	Inclusive Growth	Consumer and Society
15 Labour-Management Relations	People & Culture	Permanent and Temporary workforce
16 Training and Education	People & Culture	Permanent and Temporary workforce
17 Diverse and Inclusive Work Environment	People & Culture	Permanent and Temporary workforce
18 Community Initiatives	Inclusive Growth	Permanent and Temporary workforce, Nearby communities and Society
19 Regulatory Compliance	Responsible Governance	Management
20 Business Ethics	Responsible Governance	Management and Employees
21 Illicit Tobacco trade Prevention	Responsible Governance	Management, Employees and Suppliers
22 Policy Advocacy	Responsible Governance	Management and Employees
23 Innovation	Responsible Governance	Management and Employees
24 Responsible Sourcing	Responsible Governance	Management, Employees and Suppliers







Our ESG Roadmap: Onward to 2030

Our Environmental, Social and Governance (ESG) targets supports our enduring commitment to sustainability and value creation for all. We strive to sustain a high level of performance in all our ESG pillars, to achieve our ESG goals. The ESG roadmap sets out clear targets to achieve our sustainable development ambitions. The roadmap uses metrics to track our progress toward achieving our goals.

We firmly understand sustainability is inbuilt to business resiliency and growth, and that our size, scale, and reach can drive meaningful change and make the world better place. Building on our legacy of corporate responsibility and sustainable practices, we are moving towards a new era in sustainability for our company, as we aim to co-create an equitable and regenerative future with all our stakeholders.





The performance against our targets will be verified by independent assurance providers and our progress will be reported annually through the annual ESG reports and SEBI’s BRSR to ensure transparency of communication with our stakeholders. Our transparency reflects our continuous endeavour to build a capable, sustainable, and scalable company.

In line with our commitment to contribute towards the United Nations Sustainable development goals (UNSDGs), our sustainability targets are projected to be achieved by the year 2030.

ESG Pillar	Material topic	Target for FY 2030
Sustainable operations (Technical)	Energy 	50% renewable energy in overall energy mix (subject to regulatory environment)
	Emissions 	100% of fleet (owned and third-party passenger vehicles) will operate on electric vehicles by 2030
	Water 	Rainwater Harvesting Potential equivalent to over 3 times the Net Water Consumption in own operations
	Waste 	100% of packaging to be reusable, recyclable, or biodegradable by 2030
		100% offsetting of plastic packaging (plastic neutrality) through post-consumer plastic waste collection and processing under Extended Producer Responsibility (EPR)
Sustainable agriculture (Leaf)	Climate resilience 	30% of contracted farmers (for Talhari & Oriental crops) to use drip irrigation by 2030
		30% of crop protection agents used by contracted farmers to be biofertilizer/biochemicals based by 2030
		20% improvement in soil organic matter by 2030 through green manuring crops for better water holding capacity
	Farmer livelihood 	“We have zero tolerance towards child labour or forced labour. We shall continue to have adequate measures in place to identify and mitigate such risks within the leaf supply chain”
		“We shall continue to ensure minimum legal wage is provided to farm workers”
		100% area under tobacco cultivation to be mechanized for field preparation and removal of stubbles Also, explore and implement mechanization of other farm operations (harvesting & plantation) for at least 20% of tobacco area by 2030.

Our continuous endeavours

Since inception, it has been our continuous endeavour to make our company a better place, provide safe working environment, promote an inclusive work environment, and upgrade our employee’s knowledge. Adhering to our commitment we continue to act and build our organization.

ESG Pillar	Material topic	Our commitment
Care for people	Diverse and inclusive work environment 	Promote an inclusive work environment by: <ul style="list-style-type: none"> Being an equal opportunity employer and provide equal opportunity to all employees based on merit and ability Provide inclusiveness training to management staff to promote a work environment free from discrimination, sexual harassment and undue biases in compensation, training and employee benefits based on caste, religion, disability, gender, sexual orientation, race, colour, ancestry, marital status, or affiliation with a political, religious, or union organisation or majority/minority group
	Employment 	Continue to invest in employee engagement and conduct the employee engagement survey at regular intervals to track for any course correction, track relevant KPIs for the workforce
	Health & Safety 	Zero accident in own operations
	Regulatory Compliance 	Continue to comply with applicable regulatory requirements

Responsible Governance

Responsible governance is a pre-requisite for meeting the needs and aspirations of all stakeholders. We firmly believe that the same could be achieved by maintaining transparency in dealings, creating robust policies and practices for key processes and systems with clear accountability, integrity, transparent governance practices and the highest standard of compliance.

Board Oversight

GRI 102-18

Our commitment to responsible governance starts with the Board of Directors (hereafter referred to as Board). Their insights and feedback play a key role in ensuring business resilience and continuous improvements.

The Board comprises of six members, chaired by Mr. Naresh Kumar Sethi who is a non-executive director. The members of the Board demonstrate diversity in subject matter expertise, skills, achievements, and competencies.

The Board enforces policies and procedures and expresses confidence to the business strategy on economic, environmental, and social topics through different committees. The committees instituted by VST include



Audit Committee

The Committee is entrusted with the responsibility to supervise the internal controls and financial reporting process



Risk Management Committee

The Committee is entrusted with the responsibility of monitoring and reviewing the risk management plan



Nomination and Remuneration Committee

The Committee is entrusted with the responsibility to identify and appoint suitable candidates for representing the Board based on qualification criteria and recommend remuneration for the Board



Corporate Social Responsibility Committee

The Committee is entrusted with the responsibility to monitor the implementation of the CSR projects / programmes / activities and approve the annual CSR budget for implementing CSR projects



Stakeholder Relationship Committee

The Committee manages shareholder grievances and resolves immediately



MR. NARESH KUMAR SETHI
Non Executive Director
Chairman
2 3 4 5



MS. RAMA BIJAPURKAR
Independent Non Executive
Director
1 2 3 4 5



MR. SUDIP BANDYOPADHYAY
Independent Non Executive
Director
1 2 3



MR. RAJIV GULATI
Independent Non Executive
Director
1 3 4 5

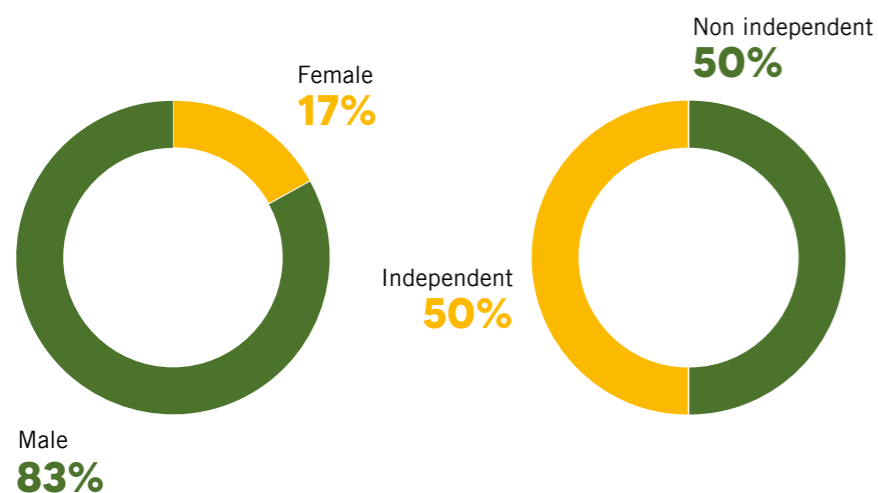


MR. S. THIRUMALAI
Non-Executive Director
1 2 3 4 5



MR. ADITYA DEB GOOPTU
Managing Director & CEO
2 4 5

Board Diversity - Snapshot



- 1 Audit Committee
 - 2 Risk Management Committee
 - 3 Nomination and Remuneration Committee
 - 4 Corporate Social Responsibility Committee
 - 5 Stakeholder Relationship Committee
- Chairperson

ESG Monitoring

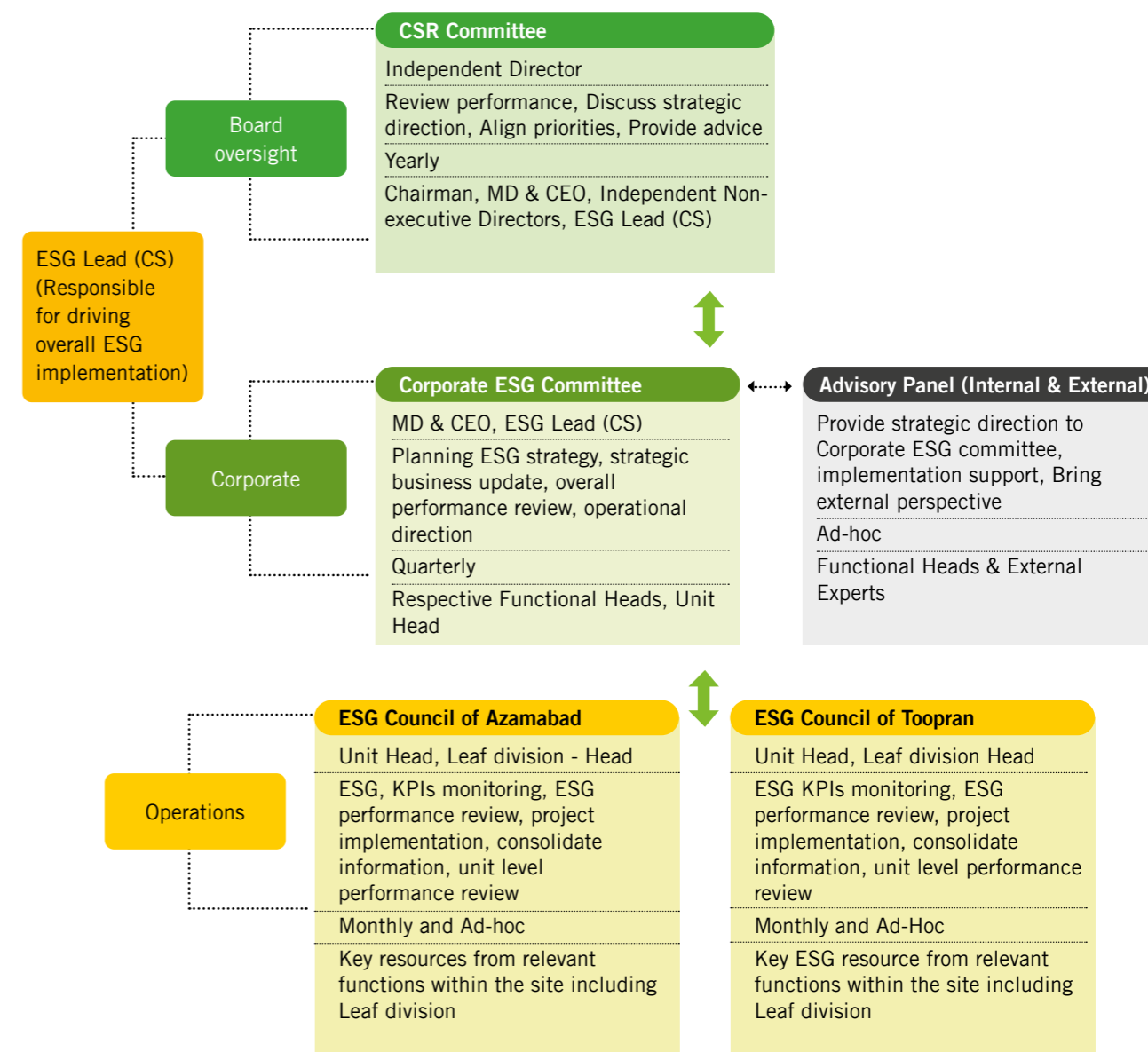
We have established a three layered ESG governance structure at the Board level, Corporate level and Unit level.

At the Board level, the CSR Committee is tasked with reviewing performance, discussing strategic directions , aligning priorities, and providing feedback to the Corporate ESG Committee.

The Corporate ESG Committee is responsible for planning the ESG strategy, setting up the business mandate , reviewing the overall ESG performance and providing operational direction to the ESG Council at the Unit level. The Committee receives advise on strategic directions and receives implementation support from the Advisory Panel as per requirement.

The ESG Council monitors the relevant ESG KPIs, reviews ESG performance against targets and implements programmes.

Our Company Secretary (CS) has been entrusted with the role of leading the overall ESG agenda of the organization, who in turn reports to the CSR Committee.



Policies, Principles and Standards

GRI 102-16

Business ethics and integrity are integral parts of our business operations. We operate at highest standards of ethics and integrity in dealing with our stakeholders and comply with the applicable laws, rules and regulations, as a responsible corporate citizen.

Our leadership is responsible for setting the tone at the top and demonstrates our commitment towards ethics, integrity, transparency and accountability through their behaviour and actions. The same is expected from our employees down the line. The Code of Conduct and Ethics Policy adopted by us ensures adherence to this commitment.

To further ensure the Policy is embedded into the culture of our organization, all our employees regardless of their individual role and designation affirm that they have read and understood the Policy. The affirmation also highlights the responsibility of our employee to speak up in case of any violation against the principles defined in the policy.

The Whistleblower Policy empowers the complainant to bring to the attention of the management any concern pertaining to suspected misconduct, unethical behaviour, suspected fraud, bribery, corruption or violations that undermine the reputation of the organization without the fear of punishment or unfair treatment.

We have established a set of corporate guidelines that form our policy framework and help us preemptively identify, manage and mitigate business risks. These are as follows.



Risk Management

(GRI 102-11, GRI 307-1, GRI 419-1)

We endeavour to bring together elements of best practices for risk management in relation to existing and emerging risk faced at both strategic and operational level. The Risk Management Committee is responsible for determining the nature and extent of the principal risks to achieve its strategic objectives and for maintaining sound risk management system. The Committee reviews the risk effectiveness of all material risks including strategic, financial, environmental, social, governance, operational and compliance levels.



Our geographical presence attracts variety of risks from economic, regulatory and political situations and from the competitors. The principal risks impacting VST's business along with the risk mitigation plans are as follows:

Regulatory restrictions could impair long term revenue growth

We operate under increasingly stringent regulatory regime (The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA) guidelines on packaging and labelling, advertising and promotion). This further gets complicated with adoption of differing regulatory regimes in different states and/or lack of consensus on interpretation/application.

Potential impact

Such restrictive regulations result in not only monetary losses due to legal proceedings and loss of reputation, but also impair our ability to communicate with adult smokers and meet consumer expectations through new brand launches or geographic expansion.

Our Response

We address this risk by engaging in continuous social dialogue with stakeholders and regulatory community through industry bodies. At the same time, it works on developing strategies and capabilities to effectively launch competitive and consumer acceptable brands within the changing regulatory environment.

Taxation changes could have an impact on short-term revenue growth







We are subjected to GST, excise and other cesses as may be made applicable, which could require us to inflate product prices and in absence of such action, absorb the additional cost in doing business.

Potential impact

This could result in lower revenues as a result of changes in economic situation, reduction in consumer's disposal income and down-trading to cheaper products including non-duty paid illicit cigarettes or alternative tobacco products.

Our Response

Such risks are addressed through: (a) engagement with tax authorities at levels where appropriate; (b) regular management review to build a well laddered brand portfolio across new segments including new brand creation; and (c) capability build-up through investments in distribution infrastructure to increase geographical spread.

Regional disruptions could have an impact on short-term revenue growth as well as loss in reputation.	Counter party risk could have a potential impact on Company's capital and profitability	Data risks
<p>Regional disturbances through state level restriction on trade or through terrorism and political violence including bandhs, strikes, have the potential to disrupt business operations.</p> <p> Potential impact</p> <p>Such disruptions result in potential loss of assets and increased costs due to more complex supply chain arrangements and/ or maintaining inefficient facilities.</p> <p> Our Response</p> <p>The risk is addressed through developing secure multiple sourcing/delivery (supply chain) strategy and through Insurance cover and business continuity planning.</p>	<p>We generate positive cash flows which are predominantly invested with financial institutions and mutual funds.</p> <p> Potential impact</p> <p>Delay and/or default in settlement on maturity of such investments could result in liquidity and financial loss to VST.</p> <p> Our Response</p> <p>Such risks are mitigated through investment based on principle of Safety; Liquidity & Returns (SLR) and with institutions having strong short-term and long-term ratings assigned by CRISIL.</p>	<p> Potential impact</p> <p>The loss or misuse of sensitive information, or its disclosure to outsiders, including competitors and trading partners, could potentially have a significant adverse impact on business operations and/or give rise to legal liability.</p> <p> Our Response</p> <p>For this purpose, information technology policies and procedures are in place which are reviewed regularly. Further, information technology controls like data backup mechanism, disaster recovery center, authorization, verification, etc. have also been established.</p>

Policy Advocacy

Collaboration with industry associations and trade organizations has fuelled our journey of sustaining a responsible business model. We regularly participate in industry events to gain from mutual learning and actively contribute in policy advocacy for common cause. Through such platforms, our senior leadership collaborate with other industry leaders and share their incisive insights and put forth noteworthy propositions to policy makers.

Responsible Sourcing

(GRI 308-2, GRI 414-2)

Sustainability is inseparable of our ethos. To meet our adult user's expectations, as well as quality and regulatory requirements, we are driven to lead our supply chain through this journey with excellence, agility and innovation, which in turn will create value for the suppliers.

Supply Chain Philosophy

The general supply chain strategy for selecting suppliers is focused on aspects such as quality, delivery and price.

However, we recognize that the responsibility to minimize the environmental and social impact is not limited to our operations but also extends to our value chain partners to further optimize the impact of their own business operations. Creating a supply chain that is reliable, resilient and above all responsible, is essential for long term business growth. Internal procedures are in place to ensure that our value chain partners commit to reduce environmental impact of their own operations, respect human rights and comply with applicable regulations. Going forward we plan to formally embed more comprehensive ESG criteria in the vendor onboarding process.

In this endeavour, we have already established a process for sustainable sourcing of tobacco leaves from our contractual farmers.



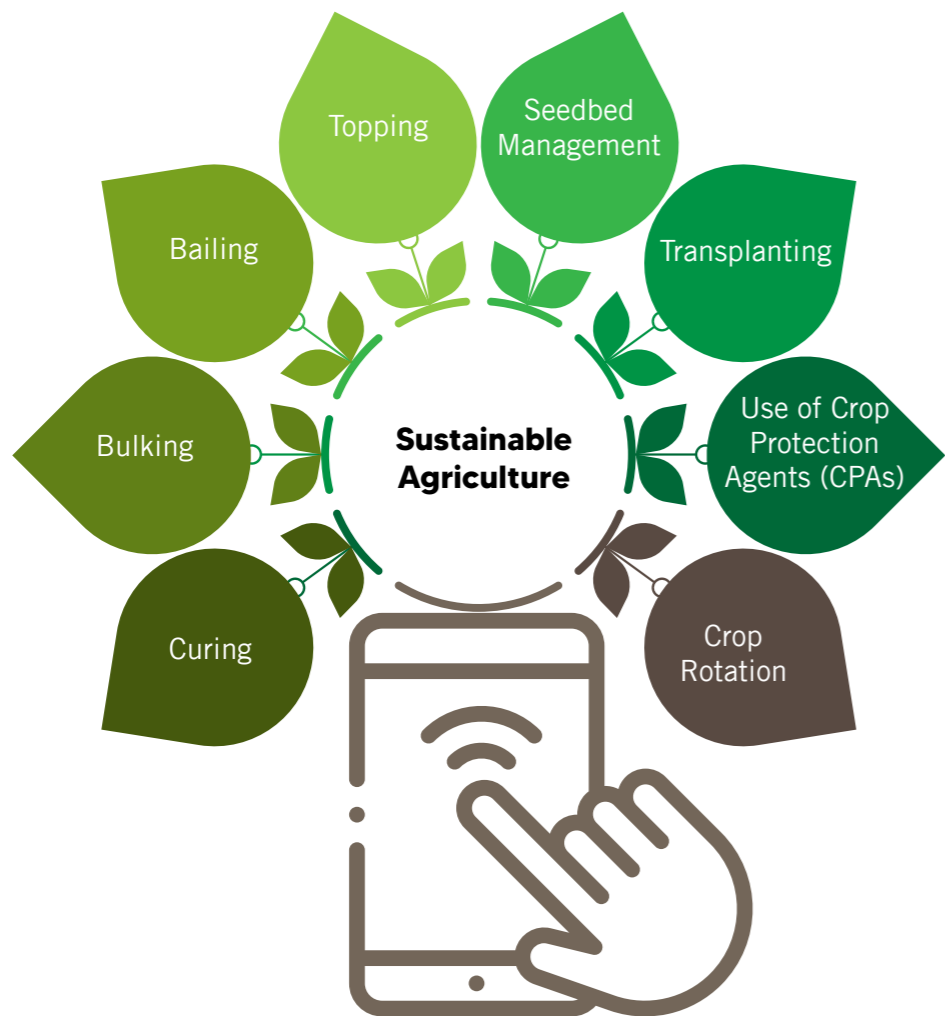
Integrating ESG in our Tobacco Supply Chain

Our procurement practices for tobacco leaf are commensurate with the Sustainable Tobacco Programme (STP). The programme defines minimum standards to be met by the contracted farmers. It facilitates continuous improvement through a measurement framework involving a combination of self-assessment and third-party review. Through cross-industry dialogue and identification of the best practices, the programme has been designed to facilitate supply of tobacco leaf that meets future environmental sustainability challenges and uplifts labour standards.

All our agreements with farmers reflect the criteria defined by STP. Moreover, the agreements are made in vernacular language as well to ensure effective implementation of Good Agriculture Practice (GAP) and safeguard the wellbeing of farm workers through the Agricultural Labour Practices (ALP) Code.

We have deployed field technicians to proactively monitor and manage implementation of the programme. Field technicians are equipped and trained in using GMS, an online mobile application that help monitor farm practices including seedbed management, transplanting, use of Crop Protection Agents (CPAs), topping, crop rotation, curing, bulking, bailing, marketing and compliance with Agriculture Labour Practices (ALP).

As of now, we have covered 15% of our contracted farmers through GMS application and we plan to gradually increase coverage of this application to all our contracted farmers in a phase wise manner. With the support of the field technicians, we are able to provide constant guidance to the farmers and recommend the good practices, which take into consideration the financial ability of the farmers. Thus, through this intervention, the gap on sustainable farming is addressed and bridged.



Innovation

The tastes and preferences of adult smokers are evolving, as they increasingly seek innovation driven products and move beyond established trademarks. Our strategic focus and track record of successful first to market innovations has established a platform, which we leverage to strengthen our market position.

We, at VST are geared to delivering unmatched experience to adult smokers by collaborating with the best-in-class consumer and technical specialists to develop a robust product pipeline and upscaling our R&D facilities. Our R&D facility is ISO 17025:2017 certified, which testifies our commitment to delivering quality products.

Innovation at VST on the following criteria

<p>Product Objective</p> <p>To build-in innovative product feature(s) and/or creative taste profile(s). leading to consumer delight and consumer appreciation of product.</p>	<p>Final Product Quality Improvement Objective</p> <p>To achieve best in class quality which shall enhance product image and thereby build competitive edge in markets for our products within the regulatory regime</p>
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Our relentless focus on process and product innovation have been the key enablers for our business growth, some of which have been highlighted in the following sections.

Product Innovation

We have already pioneered the capsule segment in India through our Total brand and have successfully introduced Indian flavours like anise and saffron in our product mix. This success has been a precursor for us, encouraging continuous innovation. We are currently working on new projects where we are testing out different profiles of smoke, new flavours, new materials and new varieties of products.

While product integrity is a key focus area for us while making our products, we put equal impetus on reducing the negative impact on the environment due to product packaging. We partnered with one of our international suppliers and have replaced the environmentally polluting plastic BOPP films used as laminates in packaging, with biodegradable films that are internationally certified.



R&D facility at our manufacturing location





Care for People

We at VST, are focused on creating a high-performance culture and equipping the organization for business growth and excellence. In this journey, it is these aspects of our culture that we leverage – the pride, passion and resilience of our employees. The Head of HR department is responsible for formulating the Human Capital strategy in close collaboration with the Managing Director and Chief Executive Officer. These strategies are finalized and implemented by the Corporate Executive committee (CEC) headed by the Managing Director.

The three levers of our Human Capital strategy that will enable us in achieving our commitment are:



Material Topic	Commitment
Diverse and inclusive work environment 	Promote an inclusive work environment by - being an equal opportunity employer and provide equal opportunity to all employees based on merit and ability Provide inclusiveness training to management staff in order to promote a work environment free from discrimination, sexual harassment and undue biases in compensation, training and employee benefits based on caste, religion, disability, gender, sexual orientation, race, colour, ancestry, marital status or affiliation with a political, religious or union organisation or majority/ minority group.

Material Topic	Commitment
Employment 	Continue to invest in employee engagement and conduct the employee engagement survey at regular intervals to track for any course correction, track relevant KPIs for the workforce.

Material Topic	Commitment
Health & Safety 	"Zero" accident in own operations

Employment

(GRI 401-1, GRI 401-2, GRI 404-3, GRI 405-1)

At VST, we value the efforts of our employees and recognize that the role they play in setting new benchmarks has enabled us to win consistently and generate long-term value with our stakeholders. We strive to make our organization, a great place to work by fostering an attractive and fulfilling work environment and offering exciting career opportunities. We recognize that the unique experiences and perspectives of our employees are critical to reflect diverse viewpoints. In addition, the wellness of our employees is fundamental for a healthier and happier work environment.

The employee strength as on 31st March 2022 is 773 including both permanent employees and workers.

Employee category	Total	Male		Female	
		Number	Percentage	Number	Percentage
Executive Management (CXO)	8	7	87	1	13
Senior Management (General Manager & Above)	6	6	100	0	0
Middle Management (Senior Manager to Deputy General Manager)	41	40	98	1	2
Junior Management (Assistant Manager, Deputy Manager & Manager)	274	267	97	7	3
Staff (All Executives, Assistants & Trainees)	40	32	80	8	20
Permanent employee	369	352	95	17	5
Permanent workers	404	404	100	0	0

Attracting the right talent

We seek to attract and hire some of the best talents through campus connect programmes at colleges and universities and provide them with comprehensive development inputs in an endeavour to create future leaders of the organization.

We promote an attractive value proposition by offering unique career opportunities. As an equal opportunity employer, we ensure fair recruitment procedures are abided without any discrimination to caste, religion, disability, gender, sexual orientation, race, colour, ancestry, marital status, or affiliation with a political, religious, or union organisation or majority/ minority group.



New Employees Hired

	FY 2021-22	FY 2020-21
Male	52	33
Female	5	2
Total	57	35

New Workers Hired

	FY 2021-22	FY 2020-21
Male	25	16
Female	0	0
Total	25	16

Employee Turnover Rate

	FY 2021-22	FY 2020-21
Male	12.78%	8.70%
Female	11.76%	21.43%
Total	12.74%	9.19%

Workers Turnover Rate

	FY 2021-22	FY 2020-21
Male	8.53%	10.64%
Female	0	0
Total	8.53%	10.64%

Employee wellbeing

Well-being at workplace plays a central role in creating happiness, increasing competence and satisfaction.

We offer a range of health and wellness benefits that are competitive within the region to meet the needs of our people. These include medical insurance, personal accident insurance, maternity leave benefits and a range of corporate partnerships focusing on health, education and well-being.

Further, our compensation and benefits programs are fair, competitive and meets industry benchmarks and reflect a broad range of priorities based on the business growth. Employees are provided with incentives and bonuses at the end of each appraisal cycle and are entitled for provident fund, gratuity and long service rewards over and above their basic pay.

Employee engagement

We believe that the experience and skills of our employees contribute to delivering business success. The culture of openness and inclusivity resulting from various engagement programs are pivotal to fostering a happy work environment.

We engage with our employees periodically through satisfaction surveys to gauge their perception about the workplace. Our employee's opinion on improving the workplace environment helps in building trusted relations. The survey is based on 6 major dimensions:



Through the survey we identify the gaps in our systems and undertake planned interventions to improve the results on a periodic basis.



Performance Management

We believe in a goal-based approach, which factors in both organization level achievements and individual achievements. Goal setting is undertaken at the beginning of the year. The targets based on the strategic objectives set by the management team are communicated to everyone, based on which Key Result Areas (KRAs) are defined and set in the system.

Individuals are assessed on their performance against the defined KRAs in alignment with organization values at the end of each appraisal cycle.

Through the process, we periodically analyze the internal capabilities and skills of our employees to create opportunities for succession planning and internal job transfers. Functional heads are tasked to identify and map high potential employees for managerial roles in the short term and leaders in the long term.

Successor identification follows criteria based on meritocracy and the horizontal nature of profiles. The functional heads and the talent management personnel identify a development plan, based on individual profile in alignment with the desired qualifications and competencies of the position.

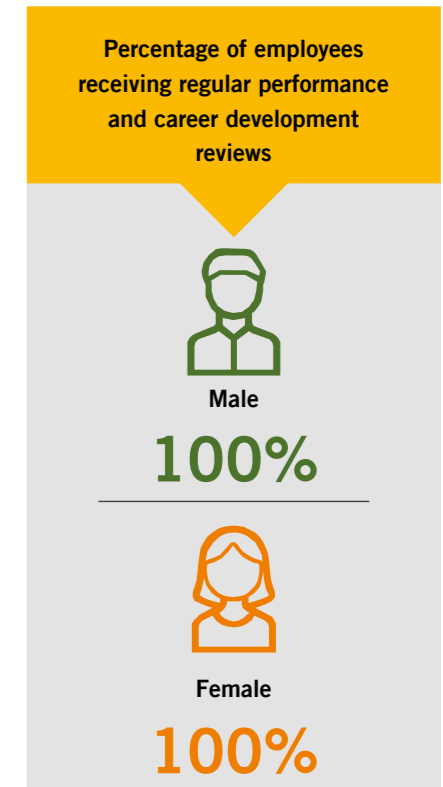
Subsequently, the candidate is groomed in building competencies in the improvement areas and assessed on their readiness for holding a role of higher responsibility.

Rewards and recognition

We believe that rewarding and recognizing the efforts of our employees not only motivates and enhances their commitment but also enables building a strong employer brand. Appreciation of good behaviour and work creates happiness while promoting teamwork, competitiveness, and loyalty towards the Company.

It is widely accepted that rewards and recognition make employees feel valued and fosters high performance. It also enables the Organization to direct focus on the right behaviours & objectives. With this intent "Gold Star – a Recognition Programme" was launched in January 2022 (for the last Quarter of FY 2021-22). Through this program we aim to recognize achievements and desired behaviours and also ensure fairness and transparency in recognition. This program is very well received by the employees across the Organisation. There are five categories in this program-

The winners are finalized through a rigorous nomination process, reviewed and signed off by the Chief Executive Committee. Every quarter we recognize the winners by awarding momentos, appreciation certificates and gift vouchers by the Managing Director. For the 1st Quarter of the ongoing financial year, the winners have received the momentos from the Board Members. Our endeavour in the near future is to sustain this momentum and scale up this initiative which will enable our transformational journey by keeping employees engaged and motivated. This would also pave the path for "Excellence" going forward and make the awards aspirational for the employees.





Diverse and Inclusive Work Environment

At VST, diversity of people and culture is encouraged at all levels of the organization. Fostering diversity & inclusion in our strategy, from developing teams to cultivating leaders is of top priority for us.

We encourage diversity and inclusion in our workforce by creating a culture of openness and providing equal opportunities for career growth and development. We provide the necessary support and infrastructure for people from diverse backgrounds to come together, speak freely of their concerns and actively participate in the decision-making process.

Training and Education

GRI 404-2

For VST, talent management includes two primary areas of focus: Providing a workplace that is attractive to prospective employees and in which they can enhance leading qualities personally and professionally; and develop careers that are engaging and rewarding.

Talent Development

We invest significant resources in nurturing talent by enhancing their skills and leadership capabilities. New recruits are imbibed with the values and culture of the organization through induction programme. We have designed training programs to cater to different levels in the organization.

Training needs assessment are undertaken annually based on a feedback conversation between the employee and their reporting manager. The training needs are mapped, and such trainings are imparted accordingly based on an annual training calendar.

We follow a three-pronged approach to impart our trainings. These include

- On the job training
- Experiential workshops
- Stretch assignments



Some of our recent trainings are focused on

Winning Mindset

Growth Orientation

Enhancing Managerial Competencies

Stepping into Leadership

Health and Safety

(GRI 403-1, GRI 403-2, GRI 403-5, GRI 403-6, GRI 403-7, GRI 403-9)

We are committed to the highest standards of health and safety for our people, keeping in mind our primary goal to ensure an accident-free workplace.

We believe that achieving excellence in safety starts with creating a safety culture within the organization. In this endeavour, our entire workforce including the contractual workers is dedicated towards ensuring workplace safety while strictly adhering to the safety policy set by the organization.

Our own manufacturing facilities are ISO 45001: 2018 certified, which lays emphasis on improving our health and safety performance by setting targets and monitoring the progress made (against the targets) on a continual basis.

Our Vice President (Technical Division) has been assigned responsibility for driving our organization level health & safety management programs. As a practice, our organizational safety performance is reported on a quarterly basis to the Board. Through our health and safety management system we comply with the local regulations, deploy a robust risk management process, undertake the necessary safety training and measure performance.



Managing Compliance

We maintain proper licenses and documentation as per requirements of the Factories Act and Management Standards. This is ensured through periodic internal and external audit. Non-conformities identified during such audits are addressed with immediate corrective actions followed by a set of preventive measures (going forward).

Risk Management

The establishment of an effective Risk Management System is based on identification of hazards, the qualitative and quantitative assessment of risks associated with such hazards, the planning and implementation of the corrective and preventive measures. In line with our commitment towards 'Zero Accidents' (in our operations), we conduct 'Hazard Identification and Risk Assessment' (HIRA) as well as 'Job Safety Analysis' (JSA) for routine and non-routine jobs. Through such assessment procedures we are able to identify the right set of risks associated with our operations and accordingly classify them under high, moderate, or acceptable categories. For the identified set of risks, we develop appropriate risk control and minimization measures to bring down the risk level to the minimum possible extent.

- We undertake several measures to mitigate our health and safety risks. Some of these initiatives include
- Up-gradation / replacement of old machineries
- Periodical health survey and medical check-up for our workforce.
- Provision of adequate personal protective equipment (PPE) that are routinely tested in an endeavour to mitigate harm from probable risks
- Maintaining proper stacking measures in warehouses and transport vehicles
- Removal of all the old cables and panels (more than 25 years old) from our operational sites

Apart from the above initiatives we also undertake routine safety trainings which are equally important for risk mitigation by developing awareness among our workforces.

Health and Safety Training

Sensitization on health and safety related risks for job related activities, as well as training on necessary safety rules and emergency preparedness plans are essential for imbibing a safety culture within an organization. We carry out daily shop floor trainings and toolbox talks for both our permanent and contractual workers in the workplace. Through the inculcation of safety culture, our employees and the workforce are able to identify unsafe acts and unsafe conditions before the occurrence of any incident. We, at VST have defined procedures to document near-miss cases and undertake the requisite steps through investigation of the root causes, followed by formulation of implementation for corrective and preventive actions.



COVID Vaccination Camp

Safety Performance

We continuously measure our health and safety performance parameters using the right metric and monitor our progress against a set of internal benchmarks; this has helped us to improve upon our performance in this domain. Our health and safety performance numbers for FY 21-22 is as follows:

Zero	Zero
Lost time Injury-Frequency Rate	Total Recordable Incidents - Frequency Rate






Human Rights

(GRI 406-1, GRI 407-1, GRI 408-1, GRI 409-1)

We, at VST recognize our fundamental responsibilities in respecting and protecting human rights. Our long-standing commitment to human rights is contained in the Code of Conduct and Ethics Policy. This is reflected in all employee or contracts with third party.

The commitment to human rights is in adherence to applicable regional laws and the principles and guidelines enshrined in existing international standards such as the Universal Declaration and the Fundamental Human Rights Conventions of the International Labour Organization (ILO).

Our approach towards maintaining a decent work environment and upholding the human rights of every individual involves strengthening our monitoring systems and systematic implementation of policies and procedures.

 <p>No Child Labour</p> <p>Our recruitment and security practices ensure zero tolerance towards child labour. The recruitment guidelines specify the minimum age standard as 18 years for employment opportunities. We scrutinize essential documents to verify the person's age during the recruitment process.</p> <p>Our security personnel are also sensitized and trained to check and verify the age and identity of third-party contractual workers entering the premise.</p>	 <p>No Forced Labour</p> <p>We strictly prohibit recruitment based on individual bond, debt or obligations towards the Company or its representatives. We do not accept cash deposits or a recruitment fee to secure employment. Our people are hired on the grounds of merit and competency only.</p>	 <p>Working Hours and Fair Wages</p> <p>Our people are provided fair and equal compensation, based on their skills and experience. We provide wages and statutory benefits on a timely basis to ensure social and economic security. Wage documentation is maintained for each individual, illustrates the wage calculation based on working hours with transparency on overtimes, bonuses, incentives and deductions received for the month. This is in compliance with the minimum wages mandate as per local laws and regulations.</p> <p>Our people are entitled to weekly offs and holidays based on local customs and days of national and international significance.</p>	 <p>Freedom of Association and Collective Bargaining</p> <p>Our people are provided fair and equal compensation, based on their skills and experience. We provide wages and statutory benefits on a timely basis to ensure social and economic security. Wage documentation is maintained for each individual, illustrates the wage calculation based on working hours with transparency on overtimes, bonuses, incentives and deductions received for the month. This is in compliance with the minimum wages mandate as per local laws and regulations.</p> <p>Our people are entitled to weekly offs and holidays based on local customs and days of national and international significance.</p>
 <p>Non-Discrimination</p> <p>Recruitment and career development opportunities are consistent, transparent and unbiased preventing any form of discrimination against any caste, race, religion or gender as prescribed under Indian regulations.</p>			

Sustainable Operations



We are approaching one of the decisive moments in this decade to tackle the pressing challenges of climate crisis. The sixth Assessment Report (AR6) laid down by the Intergovernmental Panel on Climate Change (IPCC) states that India will face some of the most severe impacts of climate change including intense heat waves, high and variable rainfall, flooding and reduction in crop yields. This calls for urgent and collaborative actions from business houses, regulatory bodies and civic societies.

Today, climate change is part of the agenda of every country and the expectation is nothing less than becoming Net Zero. India too is committed to achieving net zero emissions by 2070. As a responsible corporate citizen, we at VST firmly affirm our commitment towards contributing to the nation's promise by achieving carbon neutral operations by 2030 .

Material Topic	Target	Target Year	Status
	50% renewable energy in overall energy mix (subject to regulatory environment)	2030	On-track
	100% of fleet (owned and third-party passenger vehicles) will operate on electric vehicles by 2030	2030	On-track
	100% carbon offset for VST's own operations (scope 1+2 emissions) by 2030	2030	On-track
	Rainwater Harvesting Potential equivalent to over 3 times the Net Water Consumption in own operations	2030	On-track
	100% of packaging to be reusable, recyclable, or biodegradable by 2030	2030	On-track
	100% offsetting of plastic packaging (plastic neutrality) through post-consumer plastic waste collection and processing under Extended Producer Responsibility (EPR)	2030	On-track

At VST, we take significant effort to integrate sustainability practices into our operations across all relevant stages. Our manufacturing facilities strive towards minimising their environmental footprint and associated impact. We continue to optimize natural resource use in our processes and products as we aim to improve up on our environmental performance aligned with technology-related advancement and evolving stakeholder expectations. VST's Environment, Health & Safety (EHS) Policy establishes and showcases our vision to go beyond the required compliances, legislations, and regulations. The management and employees jointly work together to accomplish our common goal towards achieving a safe, healthy, and environment-friendly workplace.

Proactive management of issues related to aspects like - energy, emissions, water, waste, circular economy, and climate action is core component of our business strategy and culture. We periodically review our operational and environmental performance to ensure that our actions are effectively governed by the EHS Policy and we are committed towards working together with our stakeholders to combat all the environmental and ecological risks as well as challenges faced by the organisation. We continue to make investments into renewable and non-conventional energy resources to reduce our emission footprint and combat the global challenge of climate change. Both of our manufacturing facilities are accredited with ISO 14001:2015 (Environmental Management System) and ISO 45001:2018 (Occupational Health & Safety Management System).

Energy and Emissions Management

(GRI 302-1, GRI 302-3, GRI 302-4, GRI 305-1, GRI 305-2, GRI 305-4, GRI 305-7)

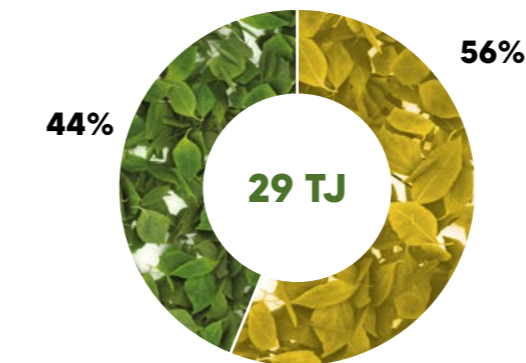
Our energy transformation strategy aims at improving our operational efficiency through adoption of innovative practices and energy efficient technologies and building reliance on alternative fuels and energy. Presently, we depend on the following two energy options in our operations:

- Electricity purchased from utilities (Indirect energy)
- Fuels (such as natural gas, diesel) for our boiler operations, DG sets and onsite renewable energy (Direct energy)

In FY 2021-22, indirect energy (purchased gridelectricity) contributed to 56% of the total requirements.

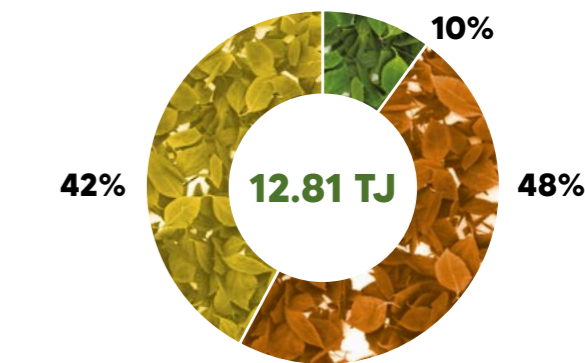
In FY 2021-22, of the total direct energy consumed, fossil fuel consumption including HSD and PNG consumption contributes to approximately 90% of the requirements whereas the installed solar plants contribute to 10% of the energy requirements.

Energy consumption by source



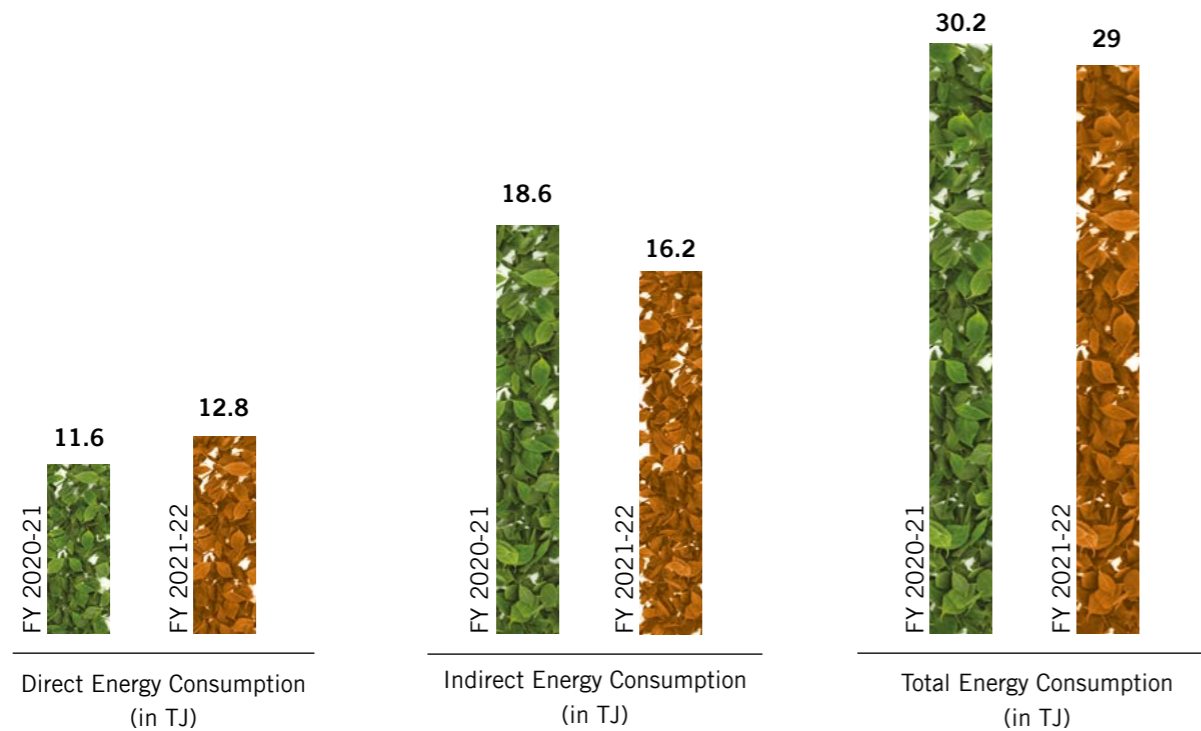
- Direct energy consumption
- Indirect energy consumption

Categorisation of direct energy consumption by type

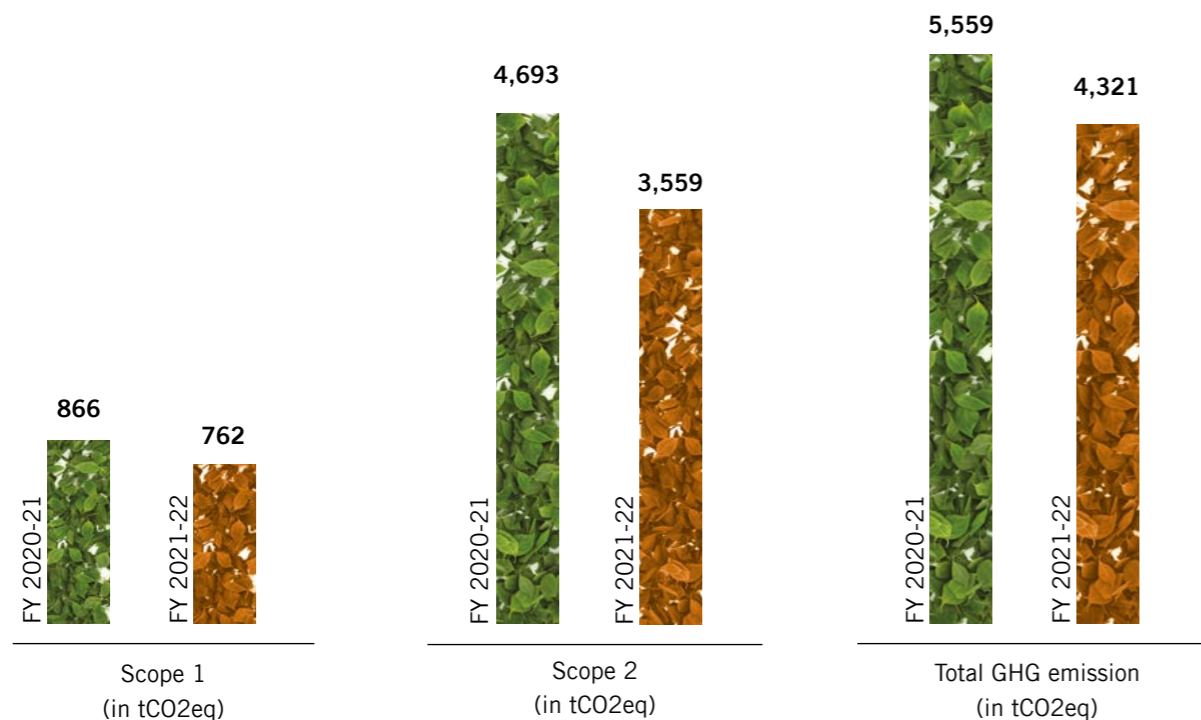


- High speed Diesel (HSD)
- Pipe natural gas PNG
- Renewable (Solar)

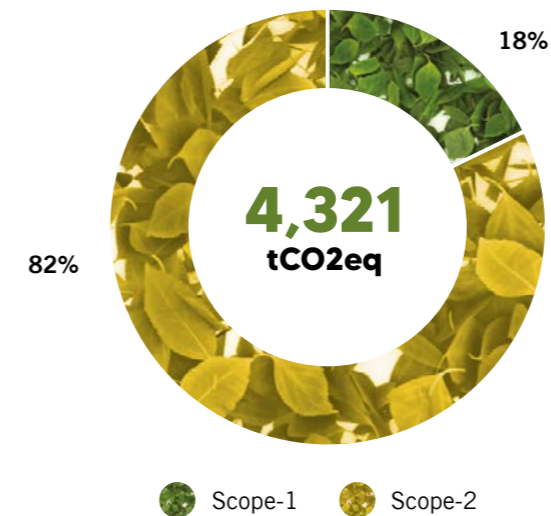
The below figure represents our energy consumption for the two financial years



We are cognizant of our accountability towards all three types of GHG emissions (Scope 1, Scope 2 & Scope 3) arising out of our operations and both upstream & downstream value chain. However, at present we are measuring and monitoring our Scope 1 & Scope 2 emissions. We are strengthening our data monitoring system focusing on relevant Scope 3 emission sources in our value chain and accordingly plan to disclose our Scope 3 emission going forward. The below figures represent GHG emissions profile and the emission intensity of the organization for the two financial years:



Total GHG Emissions (Scope 1+2) in FY 2021-22



In our path towards, achieving carbon neutrality of our own operations, we are working primarily towards the following levers and have progressed significantly over the previous year



Renewable energy:
Installation of onsite rooftop solar



Fuel substitution:
Replacement of High-Speed Diesel (HSD) with Piped Natural Gas (PNG) in boiler operations and incineration at Toopran



Internal energy efficiency initiatives

Also, going forward we plan to explore feasibility of using hydrogen as a fuel for our boiler operations.



Renewable energy

While we improve upon our operational efficiency through identification and implementation of energy saving opportunities, we continue to offset fossil fuel consumption for our own operations through renewable energy. We are committed to source 50% of our energy requirements from renewable energy sources by 2030. In this endeavour we have installed rooftop solar panels to the tune of 1 MW at our manufacturing plants and corporate office.

330 KW Corporate office

472 KW SMD (Azamabad)

200 KW PMD (Toopran)



Our solar rooftop installation at Azamabad and Toopran

The total renewable energy consumption for VST during the reporting period was 1.26 TJ. This initiative has contributed to not only building our reliance on conventional energy sources, but also avoiding 275 tCO₂ emissions during the reporting period.

While we integrate renewable energy in our operations we are also exploring and identifying the various means for accessing low carbon intensive sources of energy that are economical and involve no capital investments.

1.26 TJ
Renewable energy consumption in FY 2021-22



Fuel substitution

During the year, we have replaced the use of HSD fuel with cleaner fuel Piped Natural gas (PNG) in our boiler operations at Toopran with an objective to reduce our GHG emissions. Piped Natural gas (PNG) is considered as economical, safer and one of the cleanest burning fuels, which reduce emissions and helps improve the quality of air. We have also planned to replace diesel consumption in the incinerator with PNG by FY 2024-25. The initiative has enabled us to avoid estimated carbon footprint of 378 tCO₂e during the reporting period.



Boiler fuel conversion from HSD to PNG



Energy efficiency measures

We have adopted several measures that have enabled us to improve our efficiencies.

- Reduced energy consumption at the DRF plant by implementing a closed-loop system
- Reduced energy consumption by installing LED lights
- Carried out power quality audit and reduced the harmonics through the installation of active harmonic filters

We are also implementing energy management system in line with ISO 50001:2018 (Energy Management System) requirements and will go for ISO 50001: 2018 certification for both the manufacturing facilities in near future. Our manufacturing facility at Toopran, has also renewed its "Gold Rating Green factory building Certification" from CII, IGBC, Hyderabad, which is valid up to March 2024.

Our environmentally friendly smart factory: Toopran IGBC green factory building rating certification

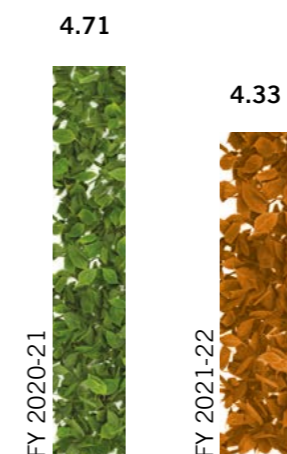
Our environmentally friendly factory is an approach to resolve and address sustainability in industrial buildings. It has provided us with both tangible and intangible benefits. The approach has led to reduction in water consumption by 30-50% and energy consumption by 20-30% in comparison to conventional buildings.

Adopting to the green factory has enhanced air quality at the premises, excellent daylighting, health & well-being of the occupants, safety benefits and conservation of scarce natural resources.



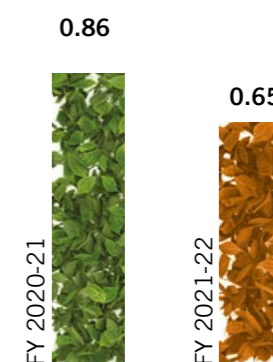
Through implementation of the above measures, we have been able to reduce our energy intensity by 8% in FY 2021-22 compared to the previous financial year. We will continue to enhance the scale and coverage of the above levers across our operations in the coming years.

Energy Intensity (GJ/MNC)



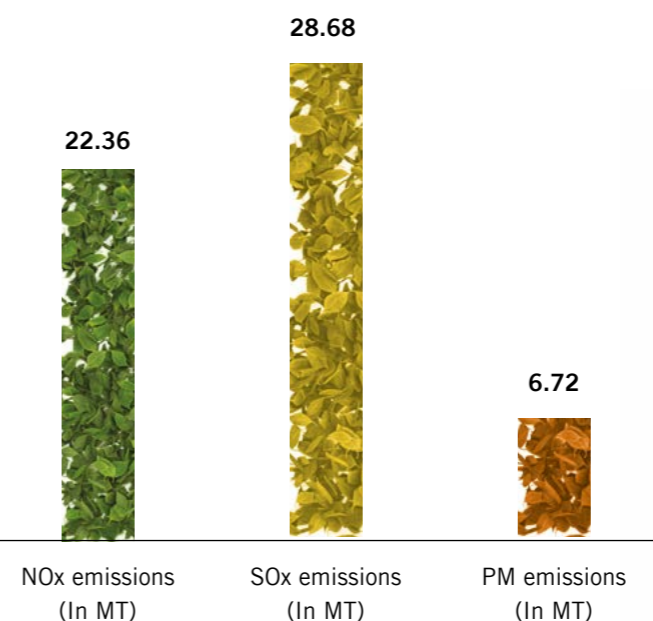
Subsequently we have also reduced our carbon footprint substantially by 24% in FY 2021-22 from previous financial year, which testify our aspirations towards achieving carbon neutral operations. Our Scope 1 emissions have reduced by 12% from 866 tCO₂e emissions in FY 2020-21 to 762 tCO₂e emissions in FY 2021-22 while our Scope 2 emissions have reduced by 24% from 4,693 tCO₂eq emissions in FY 2020-21 to 3,559 tCO₂eq emissions in FY 2021-22.

GHG intensity (tCO₂e/MNC)



Other Emissions

Preserving the air quality in and around our plants and mines has been a priority for us. We monitor our stack emissions on a monthly basis through NABL accredited third party agencies and have taken proactive measures to arrest dust pollution through installation of bag filters at our DG set stacks. Our air emissions during the reporting period are as follows.



Water Management

(GRI 303-1, GRI 303-2, GRI 303-3, GRI 303-4)

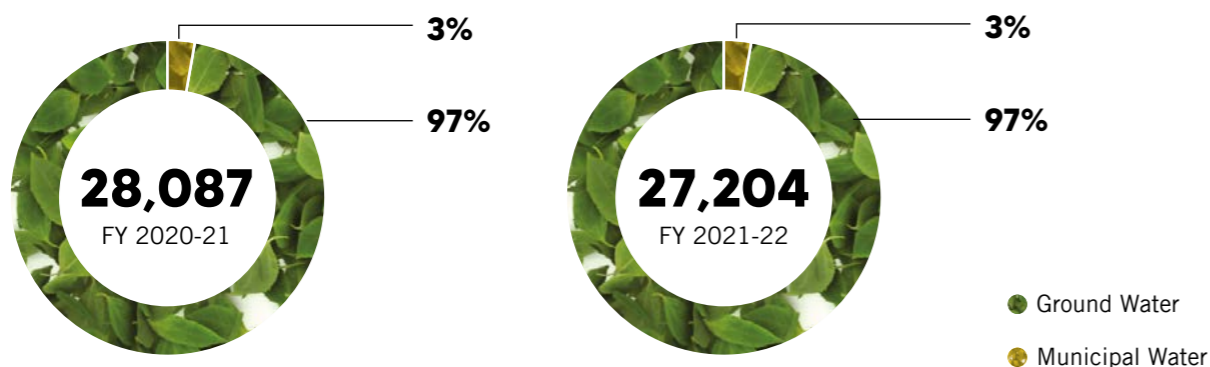
Water is a precious resource for all and requires efficient management across industry sectors. We consider water conservation and wastewater recovery as a significant aspect for our manufacturing operations. We continuously measure our water consumption, wastewater generation and discharge parameters to monitor our progress against our internal site-specific targets and benchmarks. As part of our accreditation to ISO 14001:2015 certification, we continually identify the areas for improvement of our water performance and accordingly devise action plan. A detailed action plan with set objectives and targets is currently being reviewed by MR of ISO cell. Besides this, we periodically carry out water audits and water balance studies by internal experts and by third party to have a more comprehensive understanding of our water consumption hotspots within our manufacturing operations.

Both of our manufacturing facilities are zero liquid discharge sites with wastewater being recycled for gardening purpose. We have mechanisms in place to continuously monitor our ground water consumption and effluent treatment plants performance. Ground water and effluent report are shared with pollution control boards on periodic basis as per applicable regulatory requirement.



Effluent treatment plant at Toopran

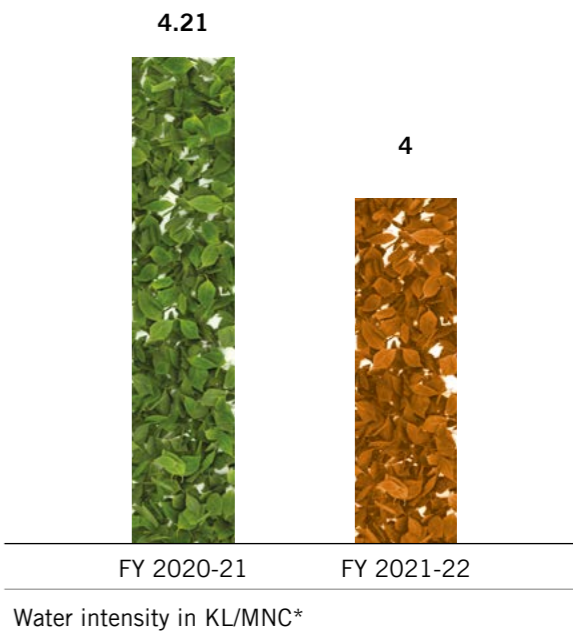
Water withdrawal by source



As highlighted above, the major water source for our manufacturing operations is ground water followed by municipal water which is used for drinking and utility purposes. There haven't been any changes in percentage water withdrawal from both the water sources over the last two financial years.

We are also creating rain water harvesting structures to ensure optimum ground water level is maintained. This is also reflective in our larger objective of becoming three times water positive by 2030. As of FY 2021-22, we have created ten rainwater harvesting pits across our manufacturing facilities, with total rainwater harvesting potential of 1,37,606 KL, which are used for recharging ground water through percolation.

As shown above, during the reporting period, we have been able to reduce our water intensity by 5% over the previous financial year, which is largely contributed through various internal water optimization initiatives across our process and utility areas.



*MNC- Million cigarettes



Rainwater Harvesting Pit at Toopran

Waste Management

(GRI 306-1; GRI 306-2, GRI 306-3)

Proper waste handling, management and disposal is critical for maintaining human health, biodiversity, and ecological cycles by lowering the risk of air, water, and land pollution. As a responsible corporate citizen, we make conscious effort to minimise waste generation from our manufacturing facilities. Waste generated from our operations is duly segregated into hazardous and non-hazardous waste and disposed through proper channels. Hazardous waste is sent to Government authorised vendors for disposal and non-hazardous waste is sold to scrap vendors. We follow the 3R principle (Reduce, Reuse and Recycle) while managing our waste. 100% of Biodegradable BOPP film is used in our packaging of the products. We do not have any waste sent to landfill or incineration.

Particulars	FY 2021-22	FY 2020-21
Hazardous waste generated (Metric Tons)	NIL	0.19
Non-Hazardous waste generated (Metric Tons)	40.45	41.31



Sustainable Material

GRI 301-1

Continuity of business operations largely depends upon the uninterrupted and timely availability of raw materials. We continuously strive to enhance our raw material utilisation efficiency. The 3R philosophy of effective waste management is well-ingrained into our business operations with the objective to minimise impacts of resource scarcity and efficient utilisation. We also emphasise on maximising the utilisation of recycled materials in our operations and production processes. We have been able to increase our production while reducing consumption by implementing efficient shopfloor initiatives, upgradation of technology and process reengineering.

We have taken multiple initiatives to use alternative and sustainable materials within our operations in order to further reduce our environmental footprint. We have shifted to 100% biodegradable Biaxially Oriented Polypropylene (BOPP) overwrap during FY 2021-22. We have also implemented traceability system by printing the laser date coding system on each packet and Corrugated Fibreboard Carton (CFC). We have been using metallised paper in place of aluminium foil for close to two decades now and exploring the possibility of using paper in place of metallised paper. We have been recycling the incoming packaging material for more than a decade now and almost 50% of our incoming packaging material is recycled.

Raw Material	Unit	FY 2021-22
Filters	Million Nos.	1,508
HLPS	Million Nos.	866
Cigarette paper	Million meters	377.63
PPCT	Million meters	121.36
Adhesive	Metric ton	145
CFC	Nos.	5,96,161
Bundling paper	Million meters	110.21
Inner frame	Metric ton	443
Gay wrapper	Million meters	9
BOPP	Metric ton	1,87,522.7



Circular Economy

At VST, we have embraced the concept of Circular Economy, where every product or component involved in business operations and product lifecycle are taken back to the economic stream, minimising our environmental impact across our value chain.

All our raw material components can be recycled except BOPP films and filter rods. To further our commitment to circular economy, we have shifted to 100% biodegradable BOPP overwrap in 2021. Further, all our packaging material which is made from paper / paperboard is recyclable.

We constantly strive to segregate the waste generated by our factories into hazardous and non-hazardous waste which is then disposed off through appropriate mechanism in place. Hazardous waste is disposed by State Pollution Control Board (SPCB) approved third party recycler. We have partnered with PCB approved recycler for implementation of Extended Producer Responsibility (EPR)

We employ processes that reclaim our packaging materials (particularly plastic waste) for safe disposal at the end of life. During FY 2021-22, we undertook plastic waste management programmes under the EPR guidelines for safely disposing all non MLP plastic waste categories. During the reporting period we have collected and safely disposed 173.33 MT of post-consumer plastic waste across 31 states and union territories in India, which will be subsequently recycled in the upcoming reporting period.

Biodiversity

Caring for ecological security and balance is an essential part of VST's sustainability agenda We try to ensure that paper and paperboard materials for our operations are procured from Forest Stewardship Council (FSC) certified vendors. We also make sure that tobacco leaves procured by us are not associated with the risk of deforestation to primary and protected forest lands.

We encourage and promote the sustainable use of renewable sources (self-sufficient firewood and biomass) for tobacco curing by our contracted tobacco farmers. We also encourage our tobacco farmers to deploy efficient curing technologies that uses lesser fuel and reduced number of curing days. Our recommendation and implementation of change in barn dimensions has reduced the fuel consumption from 8 Kg/ Kilo to 5Kg/ Kilo and required curing days from 30 to 18.

At both the manufacturing facilities, we have taken conscious decisions of maintaining a green cover.



Sustainable Agriculture





Creating shared value is at the heart of VST’s approach to sustainable development. Our continuous endeavour is to ensure that the decisions we take are not only good for doing business but also good for the society and the planet.

For this purpose, one significant pillar of our journey is sustainable agriculture. Sustainable agriculture focusses on operating our upstream value chain in a more responsible manner and ensuring good agricultural practices are undertaken at scale. This involves supporting the development of systems that protect and restore the environment, improve livelihood of farmers and strengthen resilience and wellbeing of the farming community.

The Farmer Handbook illustrates the good agricultural

practices, that are leveraged to achieve our ambitions. We have also deployed a team of field technicians who provide regular guidance to farmers on the application of the good agricultural practices and keeps the famers updated on the latest technologies and developments in farming. The field technicians are equipped with GMS, an online mobile application that help monitor farm practices that include seedbed management, transplanting, use of Crop Protection Agents (CPAs), topping, curing, bulking, bailing, marketing and compliance with Agriculture Labour Practices (ALP)

On receiving data through the GMS, the leaf function analyzes field level data and reviews progress against our targets and goals. Our mid-term and long-term goals towards sustainable farming are detailed below.

Material Topic	Target	Target Year	Status
 Farmer Livelihood	“We have zero tolerance towards child labour or forced labour. We shall continue to have adequate measures in place to identify and mitigate such risks within the leaf supply chain”	2030	Ongoing
	“We shall continue to ensure minimum legal wage is provided to farm workers”	2030	Ongoing
	Implement mechanization of field preparation and removal of stubbles for 100% of area under tobacco	2030	Ongoing
	Explore and implement mechanization of other farm operations (harvesting & plantation) for at least 20% of tobacco area	2030	Ongoing
 Climate resilience	30% of contracted farmers (for Talmari & Oriental crops) to use drip irrigation	2030	Ongoing
	30% of crop protection agents used by contracted farmers to be biofertilizer/ biochemicals based	2030	Ongoing
	20% improvement in soil organic matter through green manuring crops for better water holding capacity	2030	Ongoing

Over the course of this section, you will be familiarized with our approach and interventions to mitigate the negative impacts of our upstream.

Farmer Livelihood

(GRI 406-1, GRI 407-1, GRI 408-1, GRI 409-1, GRI 413-1)

We consider our contracted farmers as one of the valued business partners who plays a crucial role in contributing to our overall sustainability objective. While maintaining stable income could be challenging amid climate change, geopolitical tension, pandemic situations amongst other market forces, our continuous endeavour is to ensure sustainable livelihood for the farming community through various well-being initiatives.

Investing in the Farming Community

Investing on enhanced famer livelihood that benefit the farmers through improved yield and higher income is a key focus for us at VST. We provide technical assistance on some of the best agricultural practices that are designed towards making agriculture more productive, remunerative and environment friendly.

Improving soil quality

Soil plays a vital role in maintaining nutrient value and ensuring land is cultivable. We engage with farmers to sensitize them on the negative impacts of monocropping and intensive tillage practices. We have been successful

in eliminating monocropping practices. All our farmers practice crop rotation which is desirable for balancing soil nutrients.

Farm productivity

With the assistance of the Tobacco Board, technologically advanced threshing plants and re-drying facilities are now being used to increase the tobacco yield and conform with the export quality standards. We support through provision of seed varieties that offer great yield and are not harmful to the ecology and soil health. We are exploring options for introducing mechanization infield preparation, removal of stubbles and harvesting activities which will further improve profit margin of farmers by increasing farm productivity and reducing cost of produce.

Ensuring the highest quality

Quality is equally important as crop productivity. A high-quality produce fetches a higher income. We at VST, ensure the pesticide residue levels and TSNAs (Tobacco Specific Nitrosamines) are within international standards. We provide both domestic and international market linkages for the farmers by catering to the local demand and selling cut tobacco to some of our international traders who are ready to pay a premium for good quality. We facilitate the farmers in identifying Non-Tobacco Related Material (NTRM) through sorting of the bales and subsequently cleaning them.

We firmly believe that the above interventions to enhance farmer livelihood will alleviate farmers from poverty and will translate into providing better working conditions for the farming community.

Protection of Human Rights

As we continue to work on enhancing farmer livelihood and wellbeing, we also keep a vigilant watch on farm practices to identify and prevent human right abuses.

All farmer agreements are embedded with the ALP code which illustrates the various aspects of human rights the farmers are expected to abide by. On affirming to an agreement with VST, farmers agree to compliance with all local, state (provincial) and national laws and regulations in connection with labor standards, (which include minimum compensation, working hours, non-discrimination, fair treatment, safe working environment, freedom of association).

They specifically agree to

- a. not employing any child below the age of 14 in their farm
- b. not employing persons under conditions that demand work or service under the threat of any penalty and for which such person has not offered himself/ herself voluntarily, or as a means of repayment of debt
- c. strictly complying with the minimum wage provided by the applicable national law
- d. strictly prohibiting any form of discrimination
- e. ensuring provision of clean drinking water and adequate access to PPE kits
- f. providing workers their entitled breaks and rest periods



Field technicians are deployed to continuously monitor farm holdings and identify human right violations. Human right violations identified are reported through the GMS application.

We understand that human rights issues are complex in nature and requires a thorough due diligence to conclude to any solution. Remediation requires cooperation and dialogue rather than confrontation. Hence, we are taking the necessary steps by sensitizing them on actions that can interfere with human rights, the requirements to adhere to the local laws and the means to report any challenges in executing the code.

Our approach emphasizes on working with families of farmers and the community in which they reside to identify sustainable solutions that address their challenges and enhance social equity.

Growing Tobacco Safely

Cultivation of tobacco is associated with health and safety concerns at the upstream. Exposure to pesticides while handling wet green tobacco leaves during harvesting and stitching may lead to Green Tobacco Sickness (GTS).

We ensure the farmers, and the farm workers have access to adequate PPE kits. So far, we have made provisions for PPE kits for 20% of the workforce and going forward we aim to increase our coverage to 100% of the contracted farmers in a phase wise manner. Additionally, training sessions are arranged for the farmers to make them aware of the root causes of GTS occurrence and to demonstrate to them the usage of PPE kits on field days, once during the season and once on the commencement of the season.

The effectiveness of our measures is ensured by our field technicians who periodically visit each farm to monitor adequacy of PPE kits and its usage by farm workers.



Climate Resilience

Securing resources in a climate resilient supply chain is key to our business strategy. We engage with farmers to sensitize about the global concern. Through such engagements, we also try to understand the farm level challenges posed due to climate change and explore meaningful solutions to address such challenges.

Sustainable Alternatives

Across the tobacco supply chain, we understand the use of synthetic fertilizers and pesticides are prevalent. The synthetic fertilizers undergo a chain of chemical reactions, resulting in generation of nitrous oxide which is 265 times more potent greenhouse gas than carbon dioxide.

We recognize the challenges in replacing 100% of conventional chemicals with biochemicals is not feasible. We have initiated a pilot programme by introducing some of our farmers to suppliers of biochemicals to assess the impact and accordingly will push for mass adoption of biochemicals going forward. Through this programme we will aim to substitute 30% of the Crop Protection Agents (CPAs) with these alternatives.

Low Carbon Curing

Curing is a major source of emissions in the tobacco supply chain, if not sustainably managed. Our objective towards low carbon curing involves strong resentment towards deforestation and use of forest wood for curing purpose. Majority of our contract farmers indulge in sun curing, air curing and use agricultural waste such as tobacco stalks, maize husk, saw dust, sunflower head, groundnut shell and cotton stalks. However, these agricultural wastes produce biogenic emissions and addressing it is a part of our plan.

Curing is a process by which harvested tobacco leaf is made ready for the market. One of the popular ways of curing is flue curing method in which the harvested leaves are strung on sticks, which are then stacked in a barn and heated. Recognizing the impacts of flue curing in our value chain we ideated a plan towards resource efficiency by upgrading barn structure. After careful considerations and extensive research, we found out that increasing the specifications of the barn will improve efficiency. We upgraded our barn structures by increasing the capacity of the barn structures from 15 ft.*10 ft* 12ft to 24 ft*18 ft*12 ft. This initiative not only reduced our fuel requirement by 38% and but also the curing time by 40%.

Water Stewardship

As climate change becomes prevalent, lack of precipitation over an extended period can result in depletion of water resources. Increase in water demand beyond availability results in water stress risks. At VST, we strive to understand the water stress in our value chain and engage with our stakeholders to explore sustainable ways to water crops while protecting the access of the local communities to water resources.

Tobacco is primarily a rain-fed crop and majority of our contracted farmers are dependent on rainfall for a good yield. We understand our responsibility to mitigate risk of water shortage due to insufficient rainfall and for this purpose we have been adopting various initiatives such as drip irrigation, micro sprinklers and green manuring.

For example, we are introducing farmers to drip irrigation technology, micro sprinklers for nursery operations and have recommended green manuring to improve water holding capacity of the soil.

As a water steward, we continue to monitor the implementation of such practices on a periodic basis and explore new ways to optimise water usage at the upstream.

Waste Management

The tobacco supply chain is highly dependent on agrochemicals and crop protection agents for enriching the soil nutrients and improving the crop yield. These chemicals if not handled responsibly are harmful to humans and other living organisms.

Our contracts direct farmers to ensure safe disposal of the empty containers of crop protection agents. Upon emptying a CPA container, the farmer should rinse the container three times and pour the liquid into the spray tank. The container is then punctured to prevent re-use and is disposed/recycled in accordance with the CPA manufacturer’s label recommendations and/or national regulations.

We continue to create awareness amongst the farmers on the use and safe disposal of agrochemicals and have initiated the provision of CPA boxes for safe storage of agrochemical containers.





Inclusive Growth

We firmly believe in creating shared value and inclusive growth for all our stakeholders in the entire value chain. We are fully committed to fulfil our responsibility towards all our stakeholders to the best of our capabilities. At all our manufacturing facilities we engage with local communities, assess direct and indirect impacts of our business operations on these communities, and take up developmental initiatives accordingly. We continuously engage and encourage our tobacco farmers to adopt new, improved, and sustainable ways of tobacco plantation.

We continue to adhere to Cigarette and Other Tobacco Products Act (COTPA) guidelines, 2016 for packaging and labelling, advertising, and promotion. We engage in continuous social dialogue with our stakeholders and regulatory community through industry bodies.

Our CSR policy and initiatives reflects our vision, mission, thrust areas and lists out various areas in which corporate entities are expected to deploy their CSR funds and implement programmes for social development.



Responsible Marketing

(GRI 417-1, GRI 417-2, GRI 417-3)

VST's marketing policy is governed by COTPA guidelines, 2016 enacted by Government of India (GoI). COTPA is aligned to the FCTC treaty by WHO. Article 11 of FCTC requires labelling & packaging to discourage by any means that are false, misleading, deceptive, or likely to create an erroneous impression about the product's characteristics, health effects, hazards or emissions and Article 13 pertains to advertising, sponsorship, promotion ban of tobacco products. Both article 11 & 13 are comprehensively covered under COTPA. Every new joiner is explained and trained on these guidelines by senior team members.

Our sales team sensitizes stakeholders in the value chain about applicable and relevant regulations to be abided under COTPA and if necessary, material support is also provided. "Not for Sale to Minors" signages as per COTPA guidelines were/ are provided to the distributors/retailers for display outside their counters.

We have established a toll-free number on which distributors/ customers can register their complaints. The complaints are checked by grievance redressal executive and transferred to the concerned department. All the departments are required to take all the necessary efforts to resolve the issues as soon as possible. Our sales team surveys retailers periodically on any servicing issues and to take stock of competition activity.

For consumer surveys we only reach out to smokers above the age of 21 years though the mandated age as per law is 18 years. Consumer surveys in general are conducted to assess equity of brands and consumption pattern. We ensure exclusion of people below 18 years in tobacco related campaigns or consumption activities till our last point of contact (i.e., Territory Manager). There have been no complaints received from our consumers.

Littering Prevention

We are in a constant endeavour to reduce our environmental footprint. We have embraced the concept of Circular Economy, where every product or component involved in business operations and product lifecycle are taken back to the economic stream, minimising our environmental impact across our value chain. We also have plans of engaging with waste management companies in near future to conduct butt clean-up drive and other activities to tackle the issue of littering waste. We have partnered with SPCB approved recycler for implementation of Extended Producer Responsibility (EPR). We employ processes that reclaim our packaging materials (particularly plastic waste) for safe disposal at the end of life. During FY 2021-22, we undertook plastic waste management programmes under the EPR guidelines for safely disposing all non MLP plastic waste categories. During the reporting period we have collected 173.33 MT of post-consumer plastic waste across 31 states and union territories in India.

Community Initiatives

(GRI 413-1)

We have formulated a Corporate Social Responsibility Policy with the objective to promote inclusive growth and equitable development. We have identified our focus areas by contributing back to the society as per the Schedule VII of Section 135 of the Companies Act, 2013. Over the years, we have been involved in the social activities focusing on the following thrust areas.

CSR focus areas



Health and Sanitation

- **VST 'Swachh Ghar Mission'**-Household/School toilets construction & also creating awareness on safe hygiene habits
- **VST cares-** Extending Covid support to communities
- **Installation of streetlights**



Promoting Education

- **'Project Gyandeep':** Providing infra support for schools ((buildings, library, etc) & vocational training for employability
- **Mid-Day meals program for school children**



Environment sustainability

- Projects promoting sustainability in association with gram-panchayats eg: Solar street lights in villages
- **Solid Waste Management & Water Conservation**

Building upon our ethos on giving back to the society, we have further strategized our approach and have aligned our focus areas with VST's ESG strategy. For FY 2021-22, our CSR obligation as per the Companies Act was INR 1,004.65 Lakhs, which were completely spent in the projects during the year.

Focus Area-1 Health & Sanitation:



We have along with Gramalaya, a non-profit organization, constructed toilets in individual homes (of farmers living) in and around Jogulamba-Gadwal district of Telangana near our manufacturing facility, under the 'Swachh Ghar' programme. Communities around the beneficiary villages have also been sensitised regarding the importance of health & sanitation. We have constructed 1685 toilets 8 villages and 7675 toilets till date in 30 villages Over 1600 household toilets have already been constructed during the financial year, and plans are also in place to extend it further to other houses in the same area. As a result of our CSR initiatives, 4 villages have been declared free from open defecation (ODF) and other villages are work in progress.

We have also contributed INR 100 Lakhs to Telangana State Disaster Management Authority to undertake COVID-19 related activities.

Supported Covid Care Hospital by setting up Oxygen Concentrator – KIMS hospital, Hyderabad

Sponsored CII initiative to build 10 bedded Covid makeshift hospital for Hyderabad Police

Advancing community relationships by constructing smart and sustainable toilets

Our toilet models promoted under this program has sustainable sanitation models with twin leach-pits to ensure the human excreta safely disposed and reused. These households' toilets are built on the SMART model (Simple, Maintainable, Appropriate, Reusable and Technically Perfect), with an outcome of increasing the usability of the toilets. Towards implementation of the programme, we undertook the participatory rural appraisal programs by mapping village, transect walk and door-to-door hygiene education by inter-personal communication that ensured people's participation in the Swachh Ghar Mission program. Through this initiative we imparted hygiene education, motivation, and community mobilisation for demand creation for toilet construction. These toilets incorporate full cycle approach in sustainable sanitation by Integrating various technologies. They offer women friendly accessories like, sanitary napkin vending

machines and sanitary napkin incinerator. The initiative has led to develop water and sanitation facilities as well as behaviour changes among the communities particularly among the women and adolescent girls, improving the living conditions of the people with safety, security, and dignity.



Swachh Ghar Programme

Focus Area-2 Promoting Education:



Our focus in these thrust areas is to promote education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects. During the FY 2021-22, we have taken the following initiatives.

- Supporting upgradation of School infrastructure**
 We have supported 72 schools in and around Hyderabad with infrastructure upgradation such as buildings, libraries, labs among others. During the FY 2021-22, we have constructed 10 classrooms (in Government schools) in 9 villages of Kurnool (AP) and 1 drinking water facility supporting upgradation of school infrastructure.
- Vocational skill training programs**
 We have undertaken various skill development programs for the benefit of unemployed youth on various aspects to improve skills, employability and hence generating source of income.
- Nutrition for school children – Mid-day meal**
 We are supporting more than 200 schools with mid-day meals by bringing wholesome meal cooked in highly hygienic kitchens through our implementation partner Akshaya Patra.



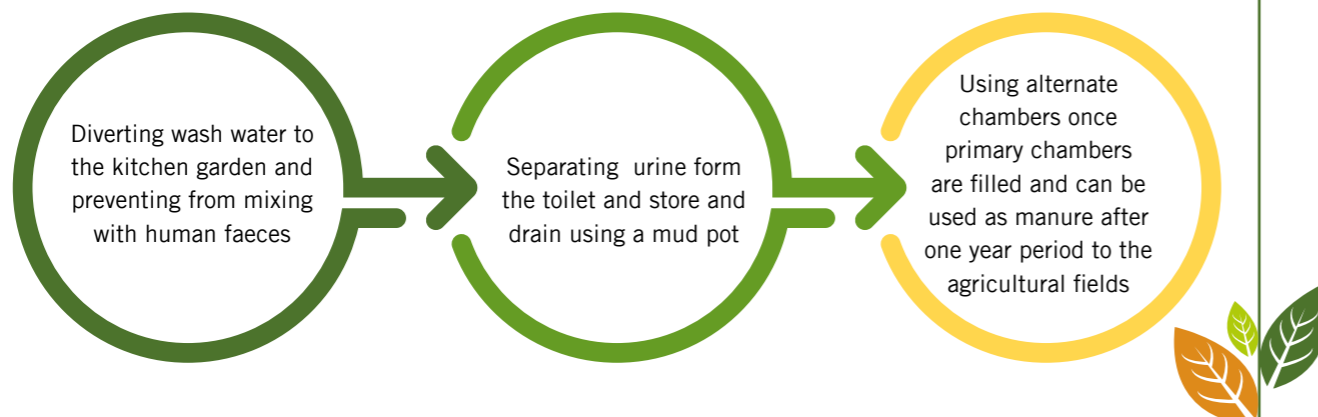
Solar streetlight

Focus Area-3 Environment Sustainability:

We have taken up an initiative of supporting environment sustainability by installing 400 solar streetlights in 8 villages/ towns in Jogulamba-Gadwal districts of Telangana.

Waste management approach to properly dispose human waste

As part of providing toilets to the community, we have emphasized on constructing eco-san toilets. These toilets are constructed above the ground-level having two chambers and two squat holes with urine separation facilities.



Our approach to building effective CSR implementation

Strengthening community initiatives embraces efforts for continuous improvement of our CSR programs, involving project planning, implementation and reviewing its effectiveness. Our monthly monitoring and assessment of projects provides us insight on the progress of a program, gap analysis and planning to fill up those gaps. To support a strategic shift towards impactful results, we have established a strong and coherent monitoring and evaluation methodology which provides information to improve efficiency and effectiveness of CSR programmes as well as adequate monitoring of all the projects.

Employee's volunteering

We firmly believe employee volunteering programs offer our people a sense of purpose and pride in their work. Our program on employee volunteering initiative encourages employees to use their interests, skillsets, and time to assist others in solving community challenges.

Way forward

As part of our continuous improvement in CSR activities and to find out the areas where we can make larger impact, we carry out need assessment to identify strategic areas for CSR investment, project identification and defining long term success measures for the projects along with short-term and long-term milestones. Before entering the details of the CSR activities, we carry out proper planning to estimate the budget. Through our thorough need assessment, we decide on the roles and responsibilities of the team members for complete value chain.



Need assessment methodology

We have identified following thematic areas where we will take our strategic approach to build better community relationships. These thematic areas are aligned with our ESG strategic objectives and priorities with sharpened focus to cover Burley and High Nic tobacco growing areas.



In-depth Interviews
Sarpanches, Government Education and Health Officials



Focus Group Discussions
Male and Female Farmers



Household survey



Rural Development

Integrated water management though watershed creation and management.

Women farmer self help groups.

Farmer training on modern farming techniques



Health and Sanitation

Training on personal hygiene and menstrual cycle hygiene.

Facilitate government health insurance coverage

Health screening camps and referral linkages with hospitals



Education

Farmer training on impact of child labor and linkage with farmer livelihood

Education support though infrastructure for schools, mobile libraries and IT infrastructure

Mid day meals for students



Environment & Sustainability

Solar energy solutions for irrigation pumps, street lights, Primary Health Care Centers and Schools under the VST Power banner

Wild life conservation



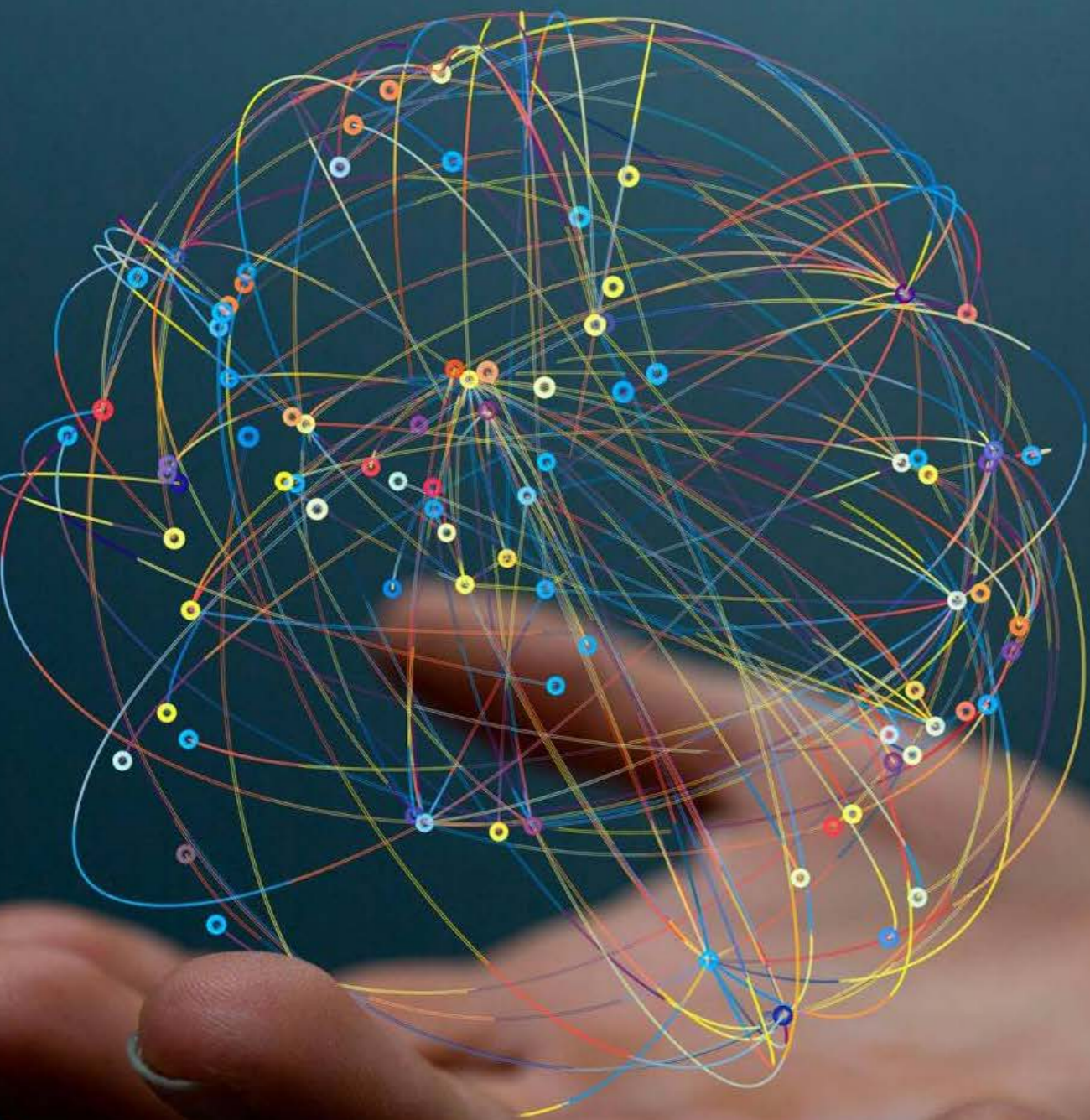
From our inception, we have been contributing to sustainable development and its scale and extent have changed as we have progressed. We are contributing to the achievement of the SDGs through our business activities for all the disadvantaged communities, farmers etc. The theme below plots each SDGs according to stakeholder expectations, versus the degree of relevance for VST's activities based on the five materiality themes.

With sustainability now at the centre of our business models and strategies, SDG roadmaps are used as a tool to lead, innovate, and challenge our approaches to shape a more sustainable future. Our business directly contributes to following SDGs.

SDGs	Initiatives
	<ul style="list-style-type: none"> Introduced technologically advanced threshing plants and re-drying facilities to increase the tobacco yield and conform with the export quality standards. Supported farmers through provision of seed varieties that offer high yield
	<ul style="list-style-type: none"> Provided mid-day meals to children from more than 200 schools
	<ul style="list-style-type: none"> Zero incidents and fatalities through the implementation of a robust health and safety management system Ensured the farmers, and the farm workers have access to adequate PPE kits Extended Covid support to communities through Telangana State Disaster Management Authority
	<ul style="list-style-type: none"> Supported upgradation of School infrastructure under 'Project Gyandeeep
	<ul style="list-style-type: none"> Implemented rainwater harvesting pits of 1,37,606 m3 capacity at the manufacturing facilities Both our manufacturing facilities are zero liquid discharge facilities Introduced farmers to drip irrigation technology, micro sprinklers for nursery operations and have recommended green manuring to improve water holding capacity of the soil Constructed household/school toilets including ecosan toilets & also created awareness on safe hygiene habits under the 'Swachh Ghar Mission', we have
	<ul style="list-style-type: none"> Our Toopran manufacturing facility is an IGBC Gold Rating Green factory building Certification Replaced the use of HSD fuel with cleaner fuel Piped Natural gas (PNG) in our boiler operations with an objective to reduce our GHG emissions Installed 472 KW in Azamabad; 200 KW in Toopran; 330 KW at corporate office capacity of rooftop solar Installed solar streetlights at villages/ towns in Jogulamba-Gadwal districts of Telangana

SDGs	Initiatives
	<ul style="list-style-type: none"> We provide employment opportunities to the women and local youth We procure many raw materials form the local communities Implemented Agriculture Labour Practices (ALP) Code which ensures adherence to labour standards
	<ul style="list-style-type: none"> 100% of Biodegradable BOPP film is used in our packaging of the products.
	<ul style="list-style-type: none"> Waste generated from our operations is duly segregated into hazardous and non-hazardous waste and disposed through proper channels We continue to create awareness amongst the farmers on the use and safe disposal of agrochemicals and provide CPA boxes for safe storage of agrochemical containers. Introduced biochemicals to replace toxic crop protection agents Sourced paper and paperboard materials for our operations that are Forest Stewardship Council (FSC) certified Implemented Extended Producer Responsibility (EPR) plans for responsible management and safe disposal of post-consumer plastic waste
	<ul style="list-style-type: none"> Our Toopran manufacturing facility is an IGBC Gold Rating Green factory building Certification Replaced the use of HSD fuel with cleaner fuel Piped Natural gas (PNG) in our boiler operations with an objective to reduce our GHG emissions Installed 472 KW in Azamabad; 200 KW in Toopran; 330 KW at corporate office capacity of rooftop solar Installed solar streetlights at villages/ towns in Jogulamba-Gadwal districts of Telangana Promoted the sustainable use of renewable sources (self-sufficient firewood and biomass) for tobacco curing by our contracted tobacco farmers. Increased the capacity of the barn structures to reduce the fuel consumption
	<ul style="list-style-type: none"> Zero incidents on corruption and bribery Adhere to Cigarette and Other Tobacco Products Act (COTPA) guidelines, 2016 ensuring responsible marketing of our products

GRI Index



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Environment		
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GRI 303: Water and Effluents	303-1 Interactions with water as a shared resource	50
	303-2 Management of water discharge-related impacts	50
	303-3 Water withdrawal	50
	303-4 Water discharge	50
Emissions		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	45
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GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	45
	305-2 Energy indirect (Scope 2) GHG emissions	45
	305-4 GHG emissions intensity	45
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	45
Waste		
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GRI 306: Waste 2016	306-1 Waste generation and significant waste-related impacts	52
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Supplier Environmental Assessment		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	26
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GRI 403: Occupational Health and Safety 2016	403-1 Occupational health and safety management system	39
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	403-5 Worker training on occupational health and safety	39
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GRI 404: Training and Education 2016	404-2 Programs for upgrading employee skills and transition assistance programs	39
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Diversity and Equal Opportunity		
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Non-Discrimination		
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	103-2 The management approach and its components	41,58
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GRI 406: Non- discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	41,58
Freedom of Association and Collective Bargaining		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	41,58
	103-2 The management approach and its components	41,58
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GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	41,58
Child Labor		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	41,58
	103-2 The management approach and its components	41,58
	103-3 Evaluation of the management approach	41,58
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	41,58
Forced or Compulsory Labor		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	41,58
	103-2 The management approach and its components	41,58
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GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	41,58
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	58, 63
	103-2 The management approach and its components	58, 63
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Disclosure	Disclosure title	Page number/ comment
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	29
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	57
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its boundaries	27
	103-2 The management approach and its components	27
	103-3 Evaluation of the management approach	27
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	27

Assurance Statement



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Independent Assurance Statement

The Management and Board of Directors

VST Industries Limited
1-7-1063/1065, Azamabad
Hyderabad- 500020
Telangana, India

Scope

We have been engaged by VST Industries Limited (hereafter “VST”) to perform a ‘limited assurance engagement,’ as defined by International Standards on Assurance Engagements, hereafter referred to as the engagement, to report on VST’s ESG performance as included in their ESG Report FY 2021-22 (the “Subject Matter”) for the period 1st April 2021 to 31st March 2022.

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by VST

In preparing the ESG Report FY 2021-22, VST applied the Global Reporting Initiative (GRI) Standards, in accordance with Core Criteria. GRI Standards - Core Criteria were specifically designed for ESG Report FY 2022; as a result, the subject matter information may not be suitable for another purpose.

VST’s responsibilities

VST’s management is responsible for selecting the Criteria, and for presenting the ESG Report FY 2021-22 in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records, and making estimates relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

EY’s responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the *International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (‘ISAE 3000’), and the terms of reference for this engagement as agreed with VST on 6th August 2021. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.



Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management’s internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the ESG Report and related information and applying analytical and other appropriate procedures.

Our procedures included:

- Review of the standard disclosures as per GRI Standards regarding the company’s material sustainability aspects contained in the report;
- Review of consistency of data / information within the report;
- Undertake assurance review of the data and information reported in the subject matter remotely for the following sample facilities

S.No.	Facility	Location
1	Primary Manufacturing Division (PMD)	Toopran, Telangana
2	Secondary Manufacturing Division (SMD)	Azamabad, Telangana
3	Corporate Office	Hyderabad, Telangana

- Review and execution of an audit trail of claims and data streams, on a selective test basis, to determine the level of accuracy in collection, transcription and aggregation processes followed;
- Conduct interview of select representatives of Company’s management to understand the current processes in place for capturing sustainability performance data as per GRI Standards, the Company’s sustainability vision and the progress made during the reporting period;



- Review of the Company's plans, policies, and practices, pertaining to their social, environment and sustainable development, to be able to make comments on the completeness of the reporting and degree to which EY believes the report provides a fair and honest representation of the Company's activities.

We also performed such other procedures as we considered necessary in the circumstances.

The assurance scope excludes:

- Data and information outside the defined reporting period-1st April 2021 to 31st March 2022;
- Data and information on economic and financial performance of the Company;
- Data, statements and claims already available in the public domain through Annual Report, or other sources;
- The Company's statements that describe the expression of opinion, belief, inference, aspiration, expectation, aim or future intention;
- The Company's compliance with regulations, acts, guidelines with respect to various regulatory agencies and other legal matters.

Conclusion

- Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the ESG Report for the period of 1st April 2021 to 31st March 2022, in order for it to be in accordance with the Criteria.

Restricted use

This report is intended solely for the information and use of VST and is not intended to be and should not be used by anyone other than VST.

For and on behalf of Ernst & Young Associates LLP.

Saunak Saha
Partner
01 November 2022
Kolkata, India



VST Industries Ltd.

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