

# Internal Carbon Pricing

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## Zydus Wellness

**Date: Jan 2025**

**Place: Ahmedabad**

# Driving Low-Carbon Growth at Zydus Wellness

## 1.1 Internal Carbon Pricing (ICP) Defined...

- Internal Carbon Pricing (ICP) is a self-imposed price on greenhouse-gas emissions that an organization uses in its financial planning and decision-making. By assigning an internal cost to each ton of CO<sub>2</sub> emitted, it encourages low-carbon investment choices well before any external regulation requires action.
- **Standard ICP Models:**
  - **Shadow Price:** Hypothetical price for evaluating projects.
    - (A notional carbon cost (₹1000 /tCO<sub>2</sub>e) is applied in financial models , project evaluation, and procurement decisions. E.g.: While comparing Coal vs. Renewable sourcing, add an internal cost for CO<sub>2</sub> emissions.)
  - **Internal Carbon Fee:** Actual charge on business units to fund climate initiatives.
- In doing so, ICP aligns business strategy with climate leadership, embedding sustainability into everyday operations and long-term growth planning.
- Internal Carbon Pricing transforms carbon from an external risk to an internal driver of innovation—strengthening Zydus Wellness’ commitment to responsible growth and long-term value creation.

# Strategic Drivers for Internal Carbon Pricing at ZWL

## Anchored in Our Long-Term Vision

- India's commitment to Net Zero by 2070 & tightening ESG expectations
- Investors and customers factoring carbon costs in decisions
- Rising energy costs & future carbon taxes pose financial risk
- Supports Zydus Wellness' long-term Sustainability & Operational Excellence goals

## Business Case:

- Enhances competitiveness and Supply-Chain Resilience
- Supports SBTi-aligned emission reduction targets
- Integrates seamlessly with Flagship initiatives- SLIM (Strategic Lean Integrated Manufacturing) /Operational Excellence programs for cost efficiency
- Improves ESG ratings and Investors' confidence

# ICP Framework & Implementation Pathway

- **Implementation Plan In Phased Manner**
  - **Phase 1 – Foundation (Year 1):** Baselineing the Emission Inventory (Scope 1 & 2 emissions across Manufacturing sites) , Setting Shadow price, Integrating into approval decisions
  - **Phase 2 – Integration (Years 2–3):** Internal carbon fee, Fund renewable & efficiency projects, Including Scope 3 gradually
  - **Phase 3 – Expansion (Year 4+):** Extending to Key suppliers, Continuous monitoring & Review
- **Recommended Starting Price:** INR 1,000 /ton CO<sub>2</sub>e (~USD 12)
  - ✓ *To begin with; Sample project evaluation with & without ICP & Highlighting how carbon pricing shifts ROI towards Greener alternatives*
- **Escalation:** 5–10% Annually

# Integrating ICP into Decision-Making

## Practical Areas where Zydus Wellness can embed ICP:

- **Capex Evaluation:** When approving boilers, solar/wind procurement, Energy Efficient Equipment / Machinery/ Utilities → Add ICP cost in ROI analysis.
  - E.g.: Compressors, Chillers, ACs, EVs etc.
- **Energy Sourcing:** Compare Grid vs. Renewable PPAs with carbon cost factored in, Fuel Consumption
- **Procurement:** Apply ICP when choosing Suppliers with different Carbon Footprints.
- **Product Costing:** Use ICP to understand the real climate cost of production.

# Strategic Objectives and Scope of Deployment

Objective	Relevant Departments in ZWL	Practical Scope & Strategy
Conducting cost-benefit analysis	Finance, Projects, ESG Steering Committee	Integrate carbon pricing and lifecycle cost analysis into investment decisions.
Driving Energy Efficiency	Engineering, Utilities, Manufacturing Operations	Implement energy audits, upgrade to energy-efficient equipment, monitor real-time consumption.
Driving low-carbon investments	Finance, ESG, GDSO- Procurement, Projects	Prioritize CAPEX for renewable energy, green buildings, and low-emission technologies.
Incentivizing climate-related issues in decision making	Leadership Team, Finance, ESG Steering Committee, Operations Excellence	Embed climate KPIs into executive scorecards and project approval frameworks.
Incentivizing climate-related issues in risk assessment	Risk Management, Internal Audit, ESG Leads	Include climate risk scenarios in enterprise risk management and internal audit plans.
Identifying and seizing low-carbon opportunities	Innovation/R&D, ESG, GDSO- Procurement	Develop Green product lines, optimize logistics, and explore circular economy models.
Setting and/or achieving climate-related policies and targets	ESG Steering Committee, Legal & Compliance, Corporate Affairs	Align with SBTi or national climate goals; publish targets in ESG disclosures.
Influencing strategy and/or financial planning	CEO Office, Board Oversight, Finance	Integrate climate risks/opportunities into long-term business strategy and capital planning.
Setting a carbon offset budget	Finance, Projects, ESG Working Council	Allocate funds for verified carbon credits or nature-based solutions (e.g., afforestation).

# Governance Framework

## A. Implementation & Execution:

Team/s	Roles/Responsibilities
Corporate Sustainability / ESG	Formulating policy, Setting targets, and Overseeing Reporting
Finance (Site)	Establishing the Internal Carbon price and Tracking Financial Impact
Project	Integrating ICP requirements into all New Capex and Infrastructure Projects, Ensuring that Design and Investment Decisions align with Emission-Reduction Goals
Procurement & R&D	Engaging Suppliers and Driving Low-Carbon Product Innovation
Operations Excellence	Leads Site-level execution and Continuous Improvement Initiatives

## B. Reviews & Approval :

Team/s	Roles/Responsibilities
Head Manufacturing	Engaging Suppliers and Driving Low-Carbon Product Innovation
Head Finance (Corp)	Reviewing financial assumptions and ensuring strategic alignment

Progress to be reported in BRSR, CSA, and Sustainability Report, showing alignment with TCFD framework.

Thank You