



## **RISK MANAGEMENT POLICY**

### **DEVYANI INTERNATIONAL LIMITED**

Every business has certain inherent risks, which cannot be eliminated completely but to a certain extent it can be mitigated if identified on time and treated appropriately. As per the Companies Act, 2013, the Board of Directors in their report to the shareholders must include a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company [Section 134 (3) (n)].

The Audit Committee shall act in accordance with the terms of reference specified in writing by the Board, which shall, inter-alia, include evaluation of risk management systems [Section 177 (4) (vii)].

The Independent Directors shall also help in bringing an independent judgment to bear on Boards deliberations especially on risk management and should satisfy themselves that systems of risk management are robust and defensible (Schedule IV);

The management outlines the following risks that are not exhaustive and are only indicative in nature. These are merely based on Managements' perception of risk and their possible mitigation.

#### **1) Business dynamics:**

The key risk is variation of sales including seasonal sales.

#### **Risk mitigation measures:**

Based on experience gained from the past and by following the market dynamics as they evolve, the Company is able to predict the demand during a particular period and accordingly an advance operational policy be formed to mitigate any consequential losses.

#### **2) Business Operations Risks:**

These risks relate broadly to Company's organization and management, such as planning, monitoring and reporting systems in the day to day management process.

#### **Risk mitigation measures:**

- Well-defined organization and reporting structure.
- Well-defined flow of information and clear communication to avoid any conflict or communication gap within the organization.
- Creation of second level positions in each Department to continue the work without any interruption in case of non-availability of functional heads.

- Formation, implementation and development of proper policies for maintenance of inventories of raw materials, consumables etc.
- Reduction of cost without compromising on the quality on a continuing basis taking various changing scenarios in the market.

**3) Liquidity Risks: like**

- Financial solvency,
- Cash management,
- Risks associated with borrowings etc.

**Risk Mitigation Measures:**

- Proper financial planning with detailed Annual Business / Operating Plans to be discussed at appropriate levels within the organization.
- Preparation of annual budgets after detailed discussions along with variance analysis to have better financial planning and study of factors giving rise to variances.
- Preparation, implementation and monitoring of the daily and monthly cash flows to prevent undue loss of interest and utilize cash in an effective manner.
- Cash management services to be availed from Banks to avoid any loss of interest on collections.

**4) Credit Risks: like**

- Risks in settlement of dues by customers
- Provision for bad and doubtful debts

**Risk Mitigation Measures:**

- Formation and implementation of systems for assessment of creditworthiness of the customers / distribution agents
- Provision for bad and doubtful debts to arrive at correct financial position of Company.
- Appropriate recovery management and follow up.

**5) Logistics Risks:**

- Use of outside contractual sources/vendors.

**Risk Mitigation Measures:**

- Exploring possibility of an in-house or better logistic mechanism if the situation demands.

**6) Market Risks / Industry Risks:**

- Demand and supply risks
- Quality and quantity risk
- Raw material risk

**Risk Mitigation Measures:**

- Procurement of raw materials from different sources at competitive prices.
- Development of alternative sources for uninterrupted supply.
- Demand and supply are external factors which are beyond control. However, planning on

the basis of experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies can mitigate this to a certain extent.

- Reduction of gap between demand and supply by expanding its customer and supplier base, delivery mechanisms, enhancement of capacity utilization etc.
- Maintenance of proper inventory control systems.

**7) Human Resource Risks: like**

- Occupational health and safety
- Unrest
- Compensation portfolio
- Human resource management

**Risk Mitigation Measures:**

- Formation and implementation of proper recruitment policy for recruitment of personnel at various levels in the organization.
- Evolution of proper appraisal system for revision of compensation on a periodical basis.
- Employee Training at regular intervals to upgrade their skills.
- Undertaking welfare activities for employees.
- Encouragement to employees to make suggestions and discuss any problems with their Superiors.
- Regular medical check-up of the employees to avoid any cause, infection or spread etc. of any communicable diseases.

**8) Force Majeure Risks:**

- Natural risks like Fire, Floods, Earthquakes, war etc.

**Risk Mitigation Measures:**

- Insurance of Company's properties against natural risks, like fire, flood, earthquakes, etc. with periodical review.
- Fire extinguishers at fire sensitive locations.
- First aid training to watch and ward staff and safety personnel.
- Audit of insurance policies to avoid later disputes.

**9) IT System Risks:**

- System capability & reliability
- Data integrity, coordinating and interfacing risks

**Risk Mitigation Measures:**

- Repair and upgradation of systems on a continuous basis by personnel who are trained in software and hardware.
- Password protection at different levels to ensure data integrity.
- Licensed software to be used in the systems.
- Ensure "Data Security" by having access control/ restrictions.

**10) Legal Risks:**

- Contract Risks & Liability
- Frauds
- Judicial Risks

**Risk Mitigation Measures:**

- Study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions on a regular basis.
- Finalization of all legal and contractual documents with legal advice from Legal professionals/outside counsels as per the requirement.
- Internal control systems for proper control on the operations of Company to detect any frauds.

**11) Foreign Exchange and Interest Rate Risk Management:**

- Currency exposures in the form of Sundry Debtors, Sundry Creditors, External Commercial Borrowings etc.
- Exchange rate fluctuations
- Interest cost / rate fluctuation during the life of the loan;
- Resetting of interest rates on an entity's loans from banks / lenders;
- Impact of interest rate fluctuations on short-term and long-term investments, assets and liabilities.

**Risk Mitigation Measures:**

- Consultation with the Company's bankers / lenders and evolution of suitable exposures in the form of limited buyers' credit and other instruments.
- Borrowing on fixed interest rate or floating interest rate for the period of the loan as may be suitable in view of prevailing conditions.
- Avail interest rate cap or option, if borrowings are on floating interest rate to protect from rising interest rates.
- Consider using an interest rate swap for borrowings on floating rates.