



RISK MANAGEMENT POLICY

VARUN BEVERAGES 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).

To comply with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Board of Directors have adopted the following framework for managing risks across operations and processes:

- (i) Risk identification
- (ii) Risk analysis
- (iii) Measure and monitor risks
- (iv) Risk controls and mitigation

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 Risks

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**

- 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**

- 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**

- 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 & Cyber Security Risks**

- System capability & reliability
- Data integrity, coordinating and interfacing risks
- Phishing attacks
- Password attacks
- Spam, hacking, etc.

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.
- Data backups to be taken regularly and in a methodical way.
- Multi-factor authentication to be implemented to prevent cyber-adversary from gaining access to a device or network and accessing sensitive information.
- Implement firewall and threat detection software.
- Install security updates.
- Awareness program on IT & Cyber Security risks.

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.

12) ESG (Environmental, Social & Governance) Risks

- Non-compliance of environmental, social and governance related laws.
- Adaptability to changes in the applicable laws including those related to ESG and Corporate Governance.
- Strained employee relations due to any reason, strikes, lock-outs, accidents, salary disputes, etc.

Risk Mitigation Measures:

Environmental

- Installation of effluent treatment plants & sewage treatment plants.
- Efficient use of natural resources & energy and installation of solar energy generation systems.
- Plantation of trees for green belt development and promoting environmental awareness & conservation.
- Reducing carbon emissions.
- Rain water harvesting & ponds adoption.
- Plastic usage reduction and plastic waste recycling.

Social

- Human capital management & diversity.
- Promoting health & safety.
- Corporate social responsibility activities.
- Community engagement.

Governance

- Promote ethical corporate governance standards.
- Adoption of policies, periodic review and awareness.
- Compliance with all applicable laws, rules & regulations.
- Conduct business with Ethics, Transparency, Responsibility & Accountability.
- Dealing with government and government officials in ethical and responsible manner.

Business Continuity Plan

Considering the highly volatile and unpredictable nature of environmental and ecological disasters, Business continuity is one of the utmost priorities for any organization in the event of occurrence of any natural disaster, pandemic, or any other likely event. In case of any high risk event, to ensure there is no disruption in the major business operations including sales, production and financial related functions, we have a detailed Business Continuity Plan in place to implement the mitigation plan immediately, restore the impacted operations within the defined time limits and ensure all functions are operating well like back-up IT servers, office facilities, raw material suppliers, etc. Crisis Management teams are formed which will be in immediate action at the time of any disaster. Regular training is provided to them to ensure the clarity of roles and responsibilities of all the teams for quick response. Also, mock drills are conducted to check the preparedness to tackle such situations.