

**VASHISHTHA LUXURY FASHION LIMITED**

**RISK MANAGEMENT POLICY**

## 1. Introduction

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Pursuant to Section 134 (3)(n) of the Companies Act, 2013 (**“Act”**) every company is required to attach to its Board Report a statement indicating development and implementation of a Risk Management Policy for the Company including identification therein of element of risks, if any, which in the opinion of the Board may threaten the existence of the Company.

Further, as per Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**“LODR Regulation”**) has cast an obligation on the top 1000 listed companies and a high value debt listed companies to constitute a Risk Management Committee. Other companies can however voluntarily appoint such a committee.

Thus, in accordance with above Vashishtha Luxury Fashion Limited (**“Company”**) has formulated this Risk Management Policy (**“Policy”**) which was framed and adopted by the Board of directors in its Board meeting held on 1<sup>st</sup> July 2024. Further the Board has formed a Risk Management Committee pursuant to LODR Regulations.

## 2. Scope and Objectives

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In principle, risk always results as a consequence of activities or as a consequence of non-activities. Risk Management and Monitoring are important in recognizing and controlling risks. The aim of risk management is to maximize opportunities in all activities and to minimise adversity.

Effective risk management allows the Company to:

- embed the management of risk as an integral part of its business processes.
- establish an effective system of risk identification, analysis, evaluation and treatment within all areas and all levels.
- Make informed decisions.
- Achieve sustainable business growth.
- avoid exposure to significant reputational or financial loss.
- assess the benefits and costs of implementation of available options and controls to manage risk.
- Have increased confidence in achieving its goals
- Strengthen corporate governance procedures.

This policy is intended to ensure that an effective risk management framework is established and implemented within the company and to provide regular reports on the performance of that framework, including any exceptions, to the Risk Management Committee.

## 3. Policy Framework

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Uncertainty is part of everyday life. ‘Risk’ is basically linked to uncertainty of the future. The uncertainty associated with the outcome of an event that can lead to loss or profit is known as Risk. Every event has got an impact associated with it - either positive or negative. The negative impact represents risk.

Oxford Dictionary defines the term “Risk” as a chance or possibility of danger, loss, injury or other adverse consequences. Although in technical terms Risk has been defined as, “Any event that will impact achievement of the Company’s objectives, including financial as well as non-financial, for its short term and long-term objectives.

Thus, Risk management is a continuous process across the organization designed to identify, assess and frame a response to threats that affect the achievement of its objectives. It enables management to prepare for risks before they devolve to improve the operational effectiveness. Determination of the risk appetite allows management to deploy resources according to the need.

The Company firmly believe that to ensure effective risk management, there ought to be risk management plans to handle the risks based on the priorities and challenges of the business. The factors involved in identified risks must be considered and the accuracy of assessment is very important. This implies, if proper risk management is implemented as a best practice, then massive capital losses can be prevented.

The success of the Risk Management Framework depends on the efforts taken to mitigate/ reduce either the probability or consequence of the risk/ threat. Therefore, considering the same, Company's Risk Management Framework includes three key elements:

- ❖ Risk Assessment - detailed study of threats and vulnerability and resultant exposure to various risks.
- ❖ Risk Management and Risk Monitoring - probability of risk assumption is estimated with available data and information.
- ❖ Risk Mitigation - Measures adopted to mitigate risk by the Company.

#### **4. Risk Assessment**

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Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed effectively. Risk Assessment consists of a detailed study of potential threats and vulnerability and resultant exposure to various risks & its constituents. To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks exposed to the Company are identified and plans for managing the same are laid out. Moreover, risk assessment allows an entity to consider how potentially an event might affect the achievement of objectives.

Identification of risk requires complete information of the organization, the economic & market conditions and external environment. Potential events that may affect the achievement of objectives are identified from internal or from external sources. Our Company is exposed to different types of risks that can be classified into various categories based on their nature, impact, source of their origin and core aspects.

Thus, we have divided the risks into three broad categories, namely: -

Sr. No.	Type of Risk	Sub- Category of Risk
A.	Business Operational Risk	i. Business Dynamics ii. Market/Industry Risk iii. Logistics Risk iv. Political Environment Risk
B.	Financial Risk	i. Liquidity Risk ii. Credit Risk iii. Foreign Exchange Risk iv. Financial Reporting Risk v. Risks of Corporate Accounting Frauds
C.	Other Risk	i. Human Resource Risk ii. Environment Risk iii. Legal Risk iv. Technological Obsolescence v. Disaster Risk

## 5. Impact of risk and Risk Mitigation

### A. Business Operations Risk

Sr. No.	Sub-Category and its impact	Risk Mitigation
i.	<u>Business Dynamics</u> – includes ❖ Organisation and management risks ❖ Production, process and productivity risks ❖ Business interruption risks consisting internal and external factors	<ul style="list-style-type: none"> <li>• The Company functions under a well-defined organization structure with focus on role clarity.</li> <li>• Proper systems are in place in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.</li> <li>• Selection of technology, standardization of processes, clear SOPs, training, upkeep of assets etc.</li> <li>• Proper training and development, incentives and reward system for employees at all levels.</li> </ul>
ii.	<u>Market/Industry Risk</u> – Includes ❖ Raw material availability and movement of rates. ❖ Demand and Supply Risks. ❖ Quantities, Qualities, Suppliers and lead time.	<ul style="list-style-type: none"> <li>• Tracking micro and macro economic level data, market trends and forecasts by expert agencies, internal review by team of experts.</li> <li>• Developing a good understanding and tracking of movement of rates of raw material at macro level, keeping a track on global and domestic economy, climatic conditions, geo-political factors, global demand and supply, trade policies etc.</li> </ul>

Sr. No.	Sub-Category and its impact	Risk Mitigation
	<ul style="list-style-type: none"> <li>❖ Competition.</li> <li>❖ Increase in commercial costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Alternative sources are developed for uninterrupted supply of raw materials</li> <li>• Demand and supply are external factors on which company has no control. However, based on experience gained from the past and by following the market dynamics as they evolve, movement by competition, economic policies and growth patterns of different segments, the Company is able to estimate the demand during a particular period and accordingly supply is planned and adjusted.</li> <li>• The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile, delivery mechanisms, technical inputs and advice on various aspects of debottlenecking.</li> <li>• Proper inventory control systems have been put in place.</li> <li>• The Company shall keep on increasing operational efficiency.</li> <li>• Effective steps are being taken to reduce cost of production on a continuing basis through focus on cost and realization, budgetary controls, management control system, close watch on market dynamics etc.</li> <li>• On competition side, keeping a close watch on competitor's strengths and weaknesses, competition dynamics etc.</li> </ul>
iii.	<p><u>Logistics Risk</u> – Includes</p> <ul style="list-style-type: none"> <li>❖ Increase in the cost of transportation from time to time in view of increasing fuel cost, insurance etc.</li> <li>❖ Use of Outside transport source.</li> </ul>	<ul style="list-style-type: none"> <li>• The Company has a dedicated transport group to handle all requirements relating to the movement of Raw Materials and finished goods.</li> <li>• Customers agree the delays due to unforeseen strikes.</li> </ul>
iv.	<p><u>Political environmental Risk</u></p> <p>Any adverse change in the political environment of the country, government policies on textile industry etc can have an impact in growth strategies of the company.</p>	<p>Reviewing and monitoring the country's related industrial, labour and other related policies and involvement in representative industry-bodies.</p>

## B. Financial Risk

Sr. No.	Sub-Category and its impact	Risk Mitigation
i.	<u>Liquidity Risk</u> – Includes <ul style="list-style-type: none"> <li>❖ Financial solvency and liquidity risks</li> <li>❖ Cash management risks</li> </ul>	<ul style="list-style-type: none"> <li>• Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the company.</li> <li>• Annual and quarterly budgets are prepared and put up to management for detailed discussion.</li> <li>• These budgets with Variance analysis are prepared to have better financial planning and study of factors giving rise to variances.</li> <li>• Daily and monthly cash flows are prepared and monitored at senior levels to access the fund requirements and ensure utilization of funds in an effective manner.</li> <li>• Cash management services are availed from Bank to ensure efficient collection and utilization of funds.</li> </ul>
ii.	<u>Credit Risk</u> – Risk in settlement of dues by dealers/customers	<ul style="list-style-type: none"> <li>• Systems put in place for assessment of credit worthiness of dealers/customers.</li> <li>• Provision for bad and doubtful debts are appropriately made in books of accounts.</li> <li>• Appropriate recovery management and follow up.</li> </ul>
iii.	<u>Foreign Exchange Risk</u> The Company has foreign currency exposures on export sales.	<ul style="list-style-type: none"> <li>• Foreign currency exposures are recognized from the time an import/export order/contract is signed and as per contractual maturity prior to opening of Letters of Credit and/or Purchase Orders by customers.</li> <li>• implementing hedging strategies for foreign currency exposures.</li> <li>• monitoring and controlling such transactions by the designated personnel.</li> </ul>
iv.	<u>Financial Reporting Risk</u> Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, SEBI rules and listing regulations creates uncertainty for the Company.	The Company is committed to maintaining high standards of corporate governance and public disclosure and to comply with evolving laws, regulations and standards.
v.	<u>Risk of Corporate Accounting Fraud</u>	<ul style="list-style-type: none"> <li>• Enforcing and monitoring code of conduct for key executives.</li> <li>• Instituting Whistleblower mechanisms.</li> </ul>

Sr. No.	Sub-Category and its impact	Risk Mitigation
	Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating expenses, understating revenues etc.	<ul style="list-style-type: none"> <li>• Deploying a strategy and process for implementing the new controls</li> <li>• Adhering to internal control practices that prevent collusion and concentration of authority.</li> <li>• Employing mechanisms for multiple authorisations of key transactions with cross checks.</li> <li>• Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and manuals and a host of other steps throughout the organization.</li> </ul>

### C. Other Risks

Sr. No.	Sub-Category and its impact	Risk Mitigation
i.	<u>Human Resource Risk</u> – Includes <ul style="list-style-type: none"> <li>❖ Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.</li> <li>❖ Unrest Risks due to Strikes and Lockouts</li> </ul>	<ul style="list-style-type: none"> <li>• Ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.</li> <li>• Company has proper recruitment policy for recruitment of personnel at various levels in the organization.</li> <li>• Proper appraisal systems must be evolved and followed regularly.</li> <li>• Inculcate in employees a sense of belonging and commitment and effectively train them in spheres other than their own specialization.</li> <li>• Activities relating to the Welfare of employees are undertaken.</li> <li>• Employees are encouraged to give suggestions and discuss any problems with their Superiors.</li> <li>• Efforts are made to keep cordial relations with employees at all levels.</li> </ul>
ii.	<u>Environmental Risk Management:</u>  The legal exposure in this regard is when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding is an offence.	<ul style="list-style-type: none"> <li>• The Company endeavors to protect the environment in all its activities, as a social responsibility.</li> <li>• The Company shall to the best of his knowledge manage and comply with any such adverse effect on business and financial condition resulting from such risk.</li> </ul>
iii.	<u>Legal Risk</u>	<ul style="list-style-type: none"> <li>• Experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the</li> </ul>

Sr. No.	Sub-Category and its impact	Risk Mitigation
	<p>Legal risk is the risk in which the Company is exposed to legal action. The Company is governed by various laws and the Company has to do its business within four walls of law, where the Company is exposed to legal risk exposure.</p>	<p>applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments.</p> <ul style="list-style-type: none"> <li>• Management places reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance.</li> <li>• The Company has formed several committees viz, Audit Committee, Compliance Committee, etc to monitor any deviation in this regard on time to time basis.</li> </ul>
iv.	<p><u>Technological obsolescence</u></p> <ul style="list-style-type: none"> <li>❖ The technological obsolescence may have an impact on the Company.</li> <li>❖ Highly dependent on IT department and vulnerable to misuses.</li> </ul>	<ul style="list-style-type: none"> <li>• Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.</li> <li>• The Company has regular upgrades and maintenance on a continuous basis with system professionals.</li> <li>• The Company ensures "Data Security", by having access control/ restrictions.</li> <li>• Data backups are taken regularly and in a methodical way.</li> <li>• Installation of antivirus software to create firewalls.</li> </ul>
v.	<p><u>Disaster Risks –</u></p> <p>Natural risks like Fire, Earthquakes, etc</p>	<ul style="list-style-type: none"> <li>• The properties of the company are insured against natural risks, like fire, earthquakes, etc. with periodical review of adequacy, rates and risks covered.</li> <li>• Fire extinguishers have been placed at fire sensitive locations.</li> <li>• First aid training is given to watch and ward staff and safety personnel.</li> <li>• Well-designed hydrant systems and training of personnel for the same</li> </ul>

## 6. Risk Management Committee

### A. Operations

The Risk Management Committee shall review on an annual basis or as needed for urgent or other matters for reviewing the progress on risk mitigation measures and also to identify new risks that may have arisen in last six months. The Board shall also review the same on annual basis.

### B. Role and Responsibilities



The following shall serve as the Role and Responsibility of the Risk Management Committee authorized to evaluate the effectiveness of the Risk Management Framework:

- i. Review of the strategy for implementing risk management policy.
- ii. To examine the organization structure relating to Risk management.
- iii. Evaluate the efficacy of Risk Management Systems – Recording and Reporting.
- iv. To review all risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines.
- v. To define internal control measures to facilitate a smooth functioning of the risk management systems.
- vi. Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management.
- vii. Business continuity plan.

### **C. Deliverables**

At a minimum, the Risk Management Committee will deliver:

- ❖ Annual assessment of Risks with reference to the Risk Management.
- ❖ Reports required for the Board.

## **7. Disclaimer Clause**

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The Management cautions that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

## **8. Review/Amendments**

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This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto. This policy shall be reviewed by the Risk Management Committee from time to time as may be necessary.

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