

RISK MANAGEMENT POLICY

AARVEE DENIMS AND EXPORTS LIMITED

1. PREFACE

Aarvee Denims And Exports Limited is one of the leading denim manufacturer Company of India, delivering superior and sustainable value to all our customers, business partners, shareholders, employee, workers and host community. Its having 3 manufacturing process unites in Gujarat having more than 2500 employees.

Pursuant to Clause 49 of Listing Agreement, every listed company and such class or classes of companies, as may be prescribed to establish a Risk Management Committee for familiarization of risk involved in our Company, Risk assessment and minimization procedures. The Board shall be responsible for framing, implementing and monitoring the risk management plan for the Company.

The Company through its Board of Directors shall constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the Committee and such other functions.

The majority of Committee shall consist of members of the Board of Directors.

Senior executives of the Company may be members of the said committee but the Chairman of the Committee shall be a member of the Board of Directors.

Under these circumstances, Aarvee Denims And Exports Limited, being a Listed Company has to establish a Risk Management Policy and to formulate a policy for the same.

2. POLICY OBJECTIVES

- To assess the risks faced by the Company and minimize the adverse impact of various risks.
- These risks may threaten the business continuity of the company or may have sizable impact on the profitability of the company.

3. SCOPE OF THE POLICY

This Policy covers Risk faced by the Company whether Risks are internal, external, technical, non-technical, etc.

4. DEFINITIONS

“**Risk Management Committee**” means a Committee constituted by the Board of Directors of the Company in accordance guidelines of Listing Agreement and subsequent amendments from time to time.

“**Board**” means the Board of Directors of the Company.

“**Company**” means the Aarvee Denims And Exports Limited (ADEL) and all its offices.

“**Code**” means Code of Conduct for Directors and Senior Management Executives adopted by Aarvee Denims And Exports Limited (ADEL).

“**Employee**” means all the present employees and whole time Directors of the Company.

“**Risk**” faced by the Company whether Risks are internal, external, technical, non-technical, etc.

“**Officers**” means an officer appointed to assess the Risk, minimization thereof, placing the same before the Risk Management Committee for its disposal and informing the Risk assessment and minimization the result thereof.

5. RISK IDENTIFIED

Following risk have been identified as the risk which may have adverse impact on the profitability of the company and on the business continuity of the company.

1. Commodity Price Risk
2. Foreign Exchange Rate Fluctuation Risk
3. Interest Rate Risk
4. Risk of Product Concentration
5. Other Business Risk

5. RISK MANAGEMENT

Commodity Price Risk

The company is exposed to risk of fluctuation of prices of all of its raw materials as well as finished goods products. The basic and key raw material used is cotton which is an agribased product. In addition to the same, there is also risk of fluctuation of prices of other raw materials like yarn, color and chemical.

The policy for mitigating risk of fluctuation of prices of each commodity type is as under:

Cotton Price Fluctuation:

Based on the data available of acreage, yield, crop and receipt of cotton in to the yards, the Company should enter into contracts – forward booking for procurement of cotton with various suppliers.

The procurement should be such that the next whole year's requirement is matched.

In case of lack of storing / warehousing facilities, the company may enter into the contract and schedule the delivery by paying the carrying charge.

While making any estimates / projections of costs, sales and profits, the cost price of cotton should be considered in such a manner that it can absorb 10% of upward price volatility.

The Manager – Cotton Purchase and full time Director(s) are authorized to decide about booking and procurement of cotton from time to time.

Colour Chemical

Considering the requirement of various colour chemicals, price trends and supply available in the market, inventory levels are to be maintained and procured.

COO (Administration), Chief Executive, Manager – Purchase and Director(s) are authorized to decide on procurement of various colour chemicals.

Finished goods

Considering the domestic and international fashion scenario as well as demand and supply scenario, the prices of all finished products of the company are highly sensitive.

The marketing team of the company along with the distributors of the company are required to closely monitor the all the forces and factors having direct and indirect impact on the demand and supply.

Based on the feedback received and prevailing trend in the market will decide upon the various quality and quantity of the products to be produced.

Director(s), Chief Operating Officer(s), Chief Executive, Marketing Manager will decide about the product mix of the company from time to time.

Foreign Exchange Fluctuation Risk

The company is exposed to the risk of foreign exchange rate fluctuation as company is exporting the finished goods and importing raw materials (colour chemical), stores and spares and capital goods.

For working capital and term loans taken in foreign currencies, the risk of rate fluctuation exists for principal and interest pay-outs.

Considering high volatility in the foreign currencies, the company should hedge its long term as well as short term exposures of foreign exchange. In consultation with the authorized dealer(s) / Bank(s), the company should look out for any possible opportunity to hedge against foreign exchange fluctuation.

The CFO / Financial Controller and Director(s) have the mandate to try and minimize the Forex risk through a continuous vigil taking the adequate hedge or forward covers.

Interest Rate Risk

The Company is exposed to interest rate fluctuations on its rupee and foreign currency denominated borrowings.

To mitigate the said risk, the company should use a judicious mix of fixed and floating rate debts.

The interest rate exposures should be continuously monitored and whenever required, use derivative instrument to minimize interest rate risk and interest costs.

The CFO / Financial Controller and Director(s) are authorized to decide about the various options available to the company from time to time.

Product Concentration

The company has risk of too much dependence on single product i.e. Denim. To de-risk the same. The company has already started the process reducing too much dependence on single product and going forward non-denim fabric, readymade garments and processed home textile fabric will be given the adequate push to increase their contribution towards their product mix.

As a policy, the continuous differentiation in product mix with a focus on high value added product is to be carried out to reduce cyclical nature and decommo-ditise the denim.

Other Business Risks:-

The company is exposed to other risk due to manmade and natural calamities, accidents, etc.

To reduce such risks, all the assets of the company and working human force / manpower of the company should be safeguarded.

To the extent feasible, all precautionary steps and actions should be taken for safety of manpower and assets at operational level.

The same should be adequately insured.

Chairman and Managing Director, Managing Director, Vice President, The CFO / Financial Controller, Chief Executive, General Manager, Factory Manager and Director(s) are responsible for taking appropriate actions for safeguarding all the assets of the company.

COVID-19 pandemic Risk:-

COVID-19 emerged as an unexpected and unprecedented risk during the last month of FY 2019-20, severely impacting all aspects of our business operation. Lockdowns were announced across the world to arrest the spread of the virus, which brought operations to a near standstill during the last fortnight of March 2020. Production was suspended across all manufacturing units in the second fortnight of March. As the fear of COVID infection spread, migrant workers started moving back to their hometown. This reverse migration resulted in a shortage of trained manpower in factories.

The sudden lockdown resulted in loss. Demand dynamics saw a major shift with consumers buying only essential products.

Risk Appetite:-

Undertaking business activity inevitably leads to taking risks. Our risk appetite is the level of risk we deem acceptable to achieve our business objectives. The nature of the risk is a key determinant of our risk appetite.

Types of Risks:-

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks, inter alia, are Regulations, Competition, Business risk, Technology Obsolescence, Retention of talent etc. Business risk, inter-alia, further includes financial risk, Political risk, Legal risk etc. For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the Company would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.

1. BUSINESS OPERATIONAL RISKS:-

- Organisation and management risks
- Production, process and productivity risks
- Business interruption risks consisting internal and external factors

2. Technological Obsolescence:-

The Company strongly believes that technological obsolescence is a practical reality.

3. FINANCIAL RISKS:-

Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organization.

- Liquidity Risks: These include: ∞ Financial solvency and liquidity risks ∞ Cash management risks.

- Credit Risks: These include risks in settlement of dues by dealers/customers.

4. OTHER RISKS:-

- Human Resource Risks: Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.
- Unrest Risks due to Strikes and Lockouts
- Environmental Risk Management: The Company endeavors to protect the environment in all its activities, as a social responsibility. 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.
- Legal Risks: 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.

Mitigation Strategy:-

We closely monitor the potential risks which will arise in future like covid-19 and opportunities that arise from Political, Economic & Regulatory environment, Exchange Rate fluctuations, and Technology changes, Environment and Climate Change, and Competition.

Each unit and business division is responsible for identifying the probable risks in their areas of operation, which is then escalated to the management level. The Risk Department coordinates with all corporate functions, Units and Zonal Offices, seeking updation of existing risks as well as identification of new, emerging risks in their respective areas, if any. All updates received are discussed with Chief Risk Officers for their inputs before being presented to the Management Committee every quarter.

Following are some mitigation measures:-

- Stepped up Safety protocols at all our units to ensure the safety and health of our workers.
 - Effectively stemmed loss of Sales.
 - Improved overall organizational efficiency
 - Operations back to near normal levels in record time
 - Strategic buying increased in select raw materials to cover anticipated shortages and price hike risks.
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AMENDMENTS:-

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.