



**HONASA CONSUMER LIMITED**

**RISK ASSESSMENT AND MANAGEMENT POLICY**

**("Risk Policy")**

**(Effective from December 23, 2022)**

## RISK ASSESSMENT AND MANAGEMENT POLICY

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### 1. Introduction

This RiskAssessment and Management Policy ("Policy") establishes the faith of Honasa Consumer Limited ("Honasa"), towards risk identification, analysis and prioritization of risks, development of risk mitigation plans and reporting on the risk environment of Honasa. This Policy is applicable to all the functions, departments and geographical locations of Honasa. The purpose of this Policy is to define, design and implement a risk management framework across Honasa to identify, assess, manage and monitor risks. Aligned to this purpose is also to identify potential events that may affect Honasa and manage the risk within the risk appetite and provide reasonable assurance regarding the achievement of Honasa's objectives.

**"Risk":** Risk is an event which can prevent, hinder or fail to further or otherwise obstruct the enterprise in achieving its objectives. A business risk is the threat that an event or action will adversely affect an enterprise's ability to maximize stakeholder value and to achieve its business objectives. Risk can cause financial disadvantages, for example, additional costs or loss of funds or assets. It can result in damage, loss of value and /or loss of an opportunity to enhance the enterprise operations or activities. Risk is the product of probability of occurrence of an event and the financial impact of such occurrence to an enterprise.

Accordingly, the board of directors of Company ("Board") has adopted this Policy at its meeting held on December 23, 2022 which can be amended from time to time.

### 2. OBJECTIVE

The objective of this Policy is to manage the risks involved in all activities of Honasa, to maximize opportunities and minimize adversity. This Policy is intended to assist in decision making processes that will minimize potential losses, improve the management of uncertainty and the approach to new opportunities, thereby helping Honasa to achieve its objectives. The objectives of the Policy can be summarized as follows:

- (a) To safeguard Honasa's and its subsidiaries'/ joint ventures' property, interests, and interest of all stake holders;
- (b) To manage risks with an institutionalized framework and consistently achieving desired outcomes;

- (c) To protect and enhance the corporate governance;
- (d) To implement a process to identify potential / emerging risks;
- (e) To implement appropriate risk management initiatives, controls, incident monitoring, reviews and continuous improvement initiatives;
- (f) Minimize undesirable outcomes arising out of potential risks; and
- (g) To align and integrate views of risk across the enterprise.

### **3. COMPONENTS OF RISK MANAGEMENT SYSTEM**

The risk management system in Honasa has the following features:

- (a) Active board of directors, committee and senior management oversight;
- (b) Appropriate policies, procedures and limits;
- (c) Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- (d) Appropriate management information systems at the business level;
- (e) Comprehensive internal controls in accordance with current regulations and business size and scale; and
- (f) A risk culture and communication framework

### **4. RISK GOVERNANCE:**

An organization's ability to conduct effective risk management is dependent upon having an appropriate risk governance structure and well-defined roles and responsibilities. Risk governance signifies the way the business and affairs of an entity are directed and managed by its Board and executive management.

### **5. RISK MANAGEMENT FRAMEWORK:**

The risk management committee formed by the Board shall periodically review the risk assessment and management policy of Honasa and evaluate the risk management systems so that management controls the risk through a properly defined network.

Heads of departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning.

### **6. RISK MANAGEMENT COMMITTEE:**

The Risk Management Committee shall have minimum three (3) members with majority of them being members of the Board of Directors, including at least two thirds of the members of the Risk Management Committee shall comprise independent directors.

The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of Honasa may be members of the Risk Management Committee.

The Risk Management Committee shall meet at least twice in a year. The quorum for a meeting of the Risk Management Committee shall be either two (2) members or one third of the members of the Risk Management Committee, whichever is higher, including at least one member of the Board of Directors in attendance.

## **7. RISK MANAGEMENT PROCESS**

Conscious that no entrepreneurial activity can be undertaken without assumption of risks and associated reward opportunities, the Company operates on a risk management process /framework aimed at minimization of identifiable risks after evaluation so as to enable management to take informed decisions.

**The framework is as follows:**

- a) Risk Identification:** Management identifies potential events that may positively or negatively affect the Company's ability to implement its strategy and achieve its objectives and performance goals.

Risks can be identified under the following broad categories. This is an illustrative list and not necessarily an exhaustive classification.

(i) Internal risks including:

- Strategic Risk: Competition, inadequate capacity, high dependence on a single customer/vendor.
- Business Risk: Project viability, process risk, technology obsolescence/ changes, development of alternative products.
- Finance Risk: Liquidity, credit, currency fluctuation.
- Environment Risk: Non-compliance to environmental regulations, risk of health to people at large.
- Personnel Risk: Health & safety, high attrition rate, incompetence.
- Operational Risk: Process bottlenecks, non-adherence to process parameters/ pre-defined rules, fraud risk.

- Reputation Risk: Brand impairment, product liabilities.
- Regulatory Risk: Non-compliance to statutes, change of regulations.
- Technology Risk: Innovation and obsolescence.
- Information and Cyber Security Risk: Cyber security related threats and attacks, Data privacy and data availability.

(ii) External risks including:

- Sectoral Risk: Unfavorable consumer behavior in relation to the relevant sector etc.
- Sustainability Risk: Environmental, social and governance related risks.
- Political Risk: Changes in the political environment, regulation/ deregulation due to changes in political environment.

**b) Root Cause Analysis:** Undertaken on a consultative basis, root cause analysis enables tracing the reasons / drivers for existence of a risk element and helps developing appropriate mitigation action.

**c) Risk Scoring:** Management considers qualitative and quantitative methods to evaluate the likelihood and impact of identified risk elements. Likelihood of occurrence of a risk element within a finite time is scored based on polled opinion or from analysis of event logs drawn from the past. Impact is measured based on a risk element's potential impact on revenue, profit, balance sheet, reputation, business and system availability etc. should the risk element materialize. The composite score of impact and likelihood are tabulated in an orderly fashion. Honasa has assigned quantifiable values to each risk element based on the "impact" and "likelihood" of the occurrence of the risk on a scale of 1 to 4 as follows.

| Impact   | Score | Likelihood |
|----------|-------|------------|
| Minor    | 1     | Low        |
| Moderate | 2     | Medium     |
| High     | 3     | High       |
| Critical | 4     | Certain    |

The resultant "action required" is derived based on the combined effect of impact & likelihood and is quantified as per the summary below.

**d) Risk Categorization:**

The identified risks are further grouped into (a) preventable; (b) strategic; and (c) external categories to homogenize risks.

- (i) Preventable risks are largely internal to Honasa and are operational in nature.

- (ii) Strategy risks are voluntarily assumed risks by the senior management in order to generate superior returns / market share from its strategy.
- (iii) External risks arise from events beyond organization's influence or control. They generally arise from natural and political disasters and major macroeconomic shifts.

**e) Risk Prioritization:**

Based on the composite scores, risks are prioritized for mitigation actions and reporting

**f) Risk Mitigation Plan:**

Management develops appropriate responsive action on review of various alternatives, costs and benefits, with a view to managing identified risks and limiting the impact to tolerance level. Risk mitigation plan drives policy development as regards risk ownership, control environment timelines, standard operating procedure, etc.

Risk mitigation plan is the core of effective risk management. The mitigation plan covers:

- (i) Required action(s);
- (ii) Required resources;
- (iii) Responsibilities;
- (iv) Timing;
- (v) Performance measures; and
- (vi) Reporting and monitoring requirements

The mitigation plan may also covers (i) preventive controls - responses to stop undesirable transactions, events, errors or incidents occurring; (ii) detective controls - responses to promptly reveal undesirable transactions, events, errors or incidents so that appropriate action can be taken; (iii) corrective controls - responses to reduce the consequences or damage arising from crystallization of a significant incident.

Therefore, it is drawn with adequate precision and specificity to manage identified risks in terms of documented approach (accept, avoid, reduce, share) towards the risks with specific responsibility assigned for management of the risk events.

**g) Risk Monitoring:**

It is designed to assess on an ongoing basis, the functioning of risk management components and the quality of performance over time. Staff members are encouraged to carry out assessments throughout the year.

**h) Options for dealing with risk**

There are various options for dealing with risk.

**Tolerate** – If we cannot reduce the risk in a specific area (or if doing so is out of proportion to the risk) we can decide to tolerate the risk; i.e., do nothing further to reduce the risk. Tolerated risks are simply listed in the corporate risk register.

**Transfer** – Here risks might be transferred to other organizations, for example by use of insurance or transferring out an area of work.

**Terminate** – This applies to risks we cannot mitigate other than by not doing work in that specific area. So if a particular project is of very high risk and these risks cannot be mitigated we might decide to cancel the project.

**i) Risk Reporting:**

Periodically, key risks are reported to the Board or risk management committee with causes and mitigation actions undertaken/ proposed to be undertaken.

The internal auditor.

The statutory auditors.

On regular periodic basis, the Board will, on the advice of the audit committee, receive the certification provided by the CEO and the CFO, on the effectiveness, in all material respects, of the risk management and internal control system in relation to material business risks.

The Board shall include a statement indicating development and implementation of a risk management policy for the Company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

**j) Risk Management Measures adopted in general by Honasa:**

Various measures to mitigate the risk arising out of various areas described above, including but not limited to the following:

- (i) A well-defined organization structure;
- (ii) Defined flow of information to avoid any conflict or communication gap;
- (iii) Hierarchical support personnel to avoid work interruption in absence/ non-availability of functional heads;
- (iv) Discussion and implementation on financial planning with detailed business plans;
- (v) Detailed discussion and analysis of periodic budgets;
- (vi) Employees training and development programs;

- (vii) Internal control systems to detect, resolve and avoid any frauds;
- (viii) Systems for assessment of creditworthiness of existing and potential contractors/subcontractors/dealers/vendors/ end-users;
- (ix) Redressal of grievances by negotiations, conciliation and arbitration; and
- (x) Defined recruitment policy.

## **8. COMMUNICATION AND CONSULTATION**

Appropriate communication and consultation with internal and external stakeholders should occur at each stage of the risk management process as well as on the process as a whole.

## **9. DISCLAIMER CLAUSE**

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, if any.

## **10. PERIODICAL REVIEW OF EFFECTIVENESS**

The effectiveness of risk management framework is ensured through periodical review of this Policy.

In the event of any conflict between the Companies Act, 2013 or the SEBI Listing Regulations or any other statutory enactments and the provisions of this Policy, the Regulations shall prevail over this Policy. Any subsequent amendment/modification in the SEBI Listing Regulations, in this regard shall automatically apply to this policy.

## **11. APPROVAL OF THE POLICY**

The Board will be the approving authority for the company's overall risk management system. The Board will, therefore, approve this Policy and any amendments thereto from time to time.

**For, HONASA CONSUMER LIMITED**

**SD/-**

**VARUN ALAGH  
CHAIRMAN**

| Version | Adopted on        | Date of amendment | Approved by        |
|---------|-------------------|-------------------|--------------------|
| V.1.1   | December 23, 2022 | NA                | Board of Directors |