



RISK MANAGEMENT POLICY

OF

CHD DEVELOPERS LIMITED

CHD DEVELOPERS LIMITED – RISK MANAGEMENT POLICY

1. Introduction

CHD Developers Limited is a Real Estate Company prone to high risk, with complex and dynamic project environments creating an atmosphere of high uncertainty and risk. The real estate industry is vulnerable to various technical, sociopolitical and business risks. Hence, this document is intended to formalize a risk management policy the objective of which shall be identification, evaluating, monitoring, and minimizing identifiable risks.

Risk is an inevitable and necessary adjunct to the functioning of an organization. Whether it is strategic decision making or carrying out the normal day-to-day operations of a Company, almost every activity involves an element of risk or uncertainty. Risk Management assists in identification, assessment and prioritization of the various risks faced by a Company. It helps the organization to understand potential risks, its impact and provides an opportunity to be prepared with alternative risk responses to mitigate/reduce the occurrence or impact of such risks.

2. Legal Requirement

CHD Developers Limited being a listed company is required to adhere to the regulations made both by the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Requirement as per Companies Act, 2013

Responsibility of the Board: As per Section 134 (n) of the Act, The Board of Directors' report must 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.

Responsibility of the Audit Committee: As per Section 177 (4)(vii) of the Act, 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 internal financial controls and risk management systems.

Responsibility of the Independent Directors: As per Schedule IV [Part II-(4)] of the Act, Independent directors should satisfy themselves that financial controls and the systems of risk management are robust and defensible.

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Requirement of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Responsibility of the Audit Committee: As per part C of Schedule II of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Audit Committee shall evaluate internal financial controls and risk management systems.

Requirement of sub-regulation 9 of Regulation 17:

- (a) The listed entity shall lay down procedures to inform members of board of directors about risk assessment and minimization procedures.
- (b) The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.

3. Purpose

“The company shall lay down procedures to inform members of board of directors about the risk assessment and minimization procedures. The Board of Directors shall be responsible for framing, implementing and monitoring the risk management policy for the company.”

Therefore, it becomes mandatory to prepare comprehensive framework of risk management for assessment of risks and determine the actions to be taken to minimize their adverse effect on the organization.

Being primarily engaged in the construction and development of properties, the Company is exposed to varying degrees of uncertainty both at the micro and macro levels which affects the economy as a whole and the sector as well. Effective risk management is, therefore, crucial for the Company to optimize its performance.

The specific objectives of this Policy are:

- To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
- To establish a framework for the company’s risk management process and to ensure its implementation.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

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- To assure business growth with financial stability.

4. Risk Strategy

The company believes that properly implemented risk management has many potential advantages in the form of better decision making, increased likelihood of achieving corporate objectives, less chance of major problems in new and ongoing activities, etc.

CHD Developers Limited has established a robust risk assessment and minimization procedures, which are reviewed by the Board periodically. The company has also established a policy to identify and mitigate various risks that would be faced by it from time to time.

At Board meetings the risk is reviewed, new risks if any are identified assessed and control measures are designed to put in place fixed timeline for mitigating the risk.

5. Risk Management

CHD Developers Limited has established a structure for managing the risks occurred in the day to day business activities. Following are the risks specific to the company and adversely affect the day to day business of the company.

Opportunities and Threats

The Government of India has deregulated and liberalized the Real Estate Sector after liberalization of a number of other sectors of the economy. Commercial space for organized retailing, Hotels and Hospitality and IT Sector are also required. The Growth of India's middle class creating demand for housing, Rising FDI levels have increased commercial space requirements by foreign firms and expansion in organized retail sector.

Fluctuations in market conditions may affect our ability to sell our projects at expected prices, which could adversely affect our revenue and earnings. Potential limitations on the supply of land could reduce our revenue or negatively impact the results of Company's operations.

As seen in the recent past the Government policies have been supportive e.g. reduction in stamp duty and change in the tenancy law and abolition of land ceiling Act.

As in any other business, the real estate sector is also likely to face competition from existing as well as new players, both domestic as well as foreign. However, your Company hopes to address the competitive threat on the strength of its

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emphasis on quality of construction, adoption of innovative designs and provision of qualitative services and of course, by using its advantage of experience.

The Company remains firmly committed to its objective of high quality coupled with aggressive cost reduction initiatives. The performance of the Company in Contracts Division is satisfactory but sometimes we have to face cost escalation and catastrophic seasonal conditions which cause delay in the implementation of the works. The Company is putting its impetus to real estate sector once again.

The real estate sector in India has undergone rapid changes in the past few years. New competitors have entered the core area of our operations in recent times. The fight for the market share has intensified with competition resorting to higher advertising costs. This combined with substantial increase in costs of critical inputs like cement, steel etc., have neutralized the impact of Government's positive policies for real estate sector.

Risk and Concerns

A big risk which the developers are facing is price risk. Real estate price cycles have the maximum impact on the margins of the developers, because land costs account for a large portion of the constructed property. The other risk to which the developers are exposed is demand risk which indicates the ability to sell properties based on location, brand, track record, quality and timelines of completion. Most real estate developers try to address this risk by undertaking market surveys in order to assess the demand for their properties. Sustained availability of housing loans at a cheaper rate is one of the reasons for growth in demand for housing units. Uncertain interest rates lead to uncertainty in the real estate market. This trend of rising interest rate may dampen the growth rate of demand for housing units. Change in Government Policies including change in Tax structure will also affect the Progress of the Real Estate Industry.

Although major initiatives in the infrastructure of road and transportation have been made, yet the availability of Power still needs the attention of policy makers.

The lack of uniformity in the regulatory environment concerning the real estate, as also the availability of quality manpower, and reliable databases on industry, are concerns that need to be addressed for attracting FDI inflows in the industry.

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KEY RISK MANAGEMENT PRACTICES

The key risk management practices include those relating to risk assessment, measurement, mitigation, monitoring, reporting and integration with strategy and business planning.

- Risk identification and assessment: Periodic assessment to identify significant risks for the Company and prioritizing the risks for action, Mechanisms. Risk register and internal audit findings also provide pointers for risk identification.
- Risk measurement, mitigation and monitoring: For top risks, dashboards are created that track external and internal indicators relevant for risks, so as to indicate the risk level. The trend line assessment of top risks, analysis of exposure and potential impact are carried out. Mitigation plans are finalized, owners are identified and progress of mitigation actions are monitored and reviewed.
- Risk Reporting: Top risks report outlining the risk level, trend line, exposure, potential impact and status of mitigation actions is discussed on a periodic basis. In addition, risk update is provided to the Board. Entity level risks such as project risks, account level risks are reported to and discussed at appropriate levels of the organization.
- Integration with strategy and business planning: Identified risks are used as one of the key inputs for the development of strategy and business plan.

RISK MANAGEMENT ROLES AND RESPONSIBILITIES:

The Board level committee i.e. Audit Committee, oversees risk management policies and procedures. The Board of Directors has the responsibility for reviewing the company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

The Board of Directors is responsible for:

1. Approving and authorizing the policy
2. Ensuring that a system is in place to identify the risk and best action is to be taken to mitigate that risk
3. Reviewing the periodical and annual risk reports that identify the risk to the company and mitigation strategies in place.

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6. Review

This Policy shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.

7. Amendment

This Policy can be modified at any time by the Board of Directors of the Company.
