

Risk Management Policy

1. Preamble

- i. Celebrity Fashions Limited's primary business activities are directly/ indirectly linked to international prices and major international currencies.
- ii. While raw material imports are exposed to forex risks, the export proceeds are directly affected based on currency fluctuations.
- iii. The annual export volumes are to the tune of Rs. 200 Crores and payables on account of import and debt service add up to around Rs. 80 Crores annually. The company is therefore exposed to direct currency risk by Rs. 120 Crores annually.
- iv. It is therefore important that the Company manages and mitigates its risk and accordingly develop a Currency and Risk Management Policy Document which will provide guiding parameters including detailed rules and procedures within which the Company Treasury (Finance) Department would operate to effectively manage and hedge all identified risks. This document forms the framework for managing the risks and the basis of Standard Operating Procedures and associated controls.

2. Objectives

- i. To protect INR value of the committed receipts and payments in foreign currencies while minimizing the cost of such protection.
- ii. To ensure hedging in a planned manner within the parameters laid down in the policy document.

- iii. To ensure that the forex exposure for each transaction is converted at a rate which is equal to or better than the Costed/budgeted rate conversion in the Quarterly/Annual financial Projection.
- iv. To define the Forward cover policy for confirmed and unconfirmed orders.

3. Organization

- i. The Risk Management function would be carried out by Treasury Desk which would be headed by Chief Financial Officer the Treasury Desk would include only the Dealers and the Back Office personnel will report directly to the Managing Director.

ii. The Treasury Committee

The Treasury Committee will be responsible for control and direction of the Currency and Interest Rate Risk Management. It would be responsible to ensure that the Risk Management practices and controls are in line with the policy set. The Committee will meet at monthly intervals to review and recommend any changes in the strategy within the Policy and Procedures set by the Board. The Committee will serve as a forum for discussions of effectiveness of existing and new hedging instruments, strategies used / to be used in management of Risks. The Committee will be headed by Managing Director and any other concerned official as would be decided by the Managing Director from time to time.

4. Procedures

- i. The point at which the exposure would deemed to have arisen will be as follows:
 - a) Imports on unfixed basis: L/C opening date
 - b) Imports on Fixed Price: Purchase Order Date

c) Exports:

Sale Order Date

- ii. The Process units shall be responsible to ensure that
 - a. The information pertaining to Sale/ Purchase order are reported to the Treasury Desk within (3) three working day.
 - b. The information for changes in amount/ currency/ settlement date of the underlying contract is sent to Treasury Desk within 2 (two) working day of receipt of such information. The Treasury Desk will not be responsible for losses arising form such changes in cancellation of the contracts if the information is not promptly communicated to it.
- iii. Treasury Desk will consider the exposures for hedging as soon as they are reported.
- iv. At the time of reporting of the transaction, the Transaction reporting unit will be advised the appropriate Costed/budgeted rate by Treasury which would be the appropriate ongoing market rate.
- v. Apart from hedging the currency risk generated by the underlying commercial transactions, the Treasury Desk may also cover anticipated exposures using forward contracts/ option contracts subject to the same being in conformity with the RBI Guidelines.
- vi. At least $2/3^{\text{rd}}$ of the total confirmed export orders and 50% of the total unconfirmed export orders are to be covered using forward contracts.

- vii. As and when the cover for anticipated exposure is utilized for actual exposure, the profit/loss on such positions will be appropriated against Treasury Desk and shown as such.

5. Mark to Market

All hedges actual/ anticipated would be marked to market on daily by the Back Office and exceptions if any put up to the Managing Director/Chief Financial Officer.

6. New Product evaluation

- i. The Treasury Desk will interact with Banks and other institutions and evaluate new products. The Treasury Desk will put up to the Treasury Committee, detailed reasoned recommendations for use of such products in hedging. The Risks in the product would be separately evaluated by the Back Office who will invariably put up the scenario analysis in respect of products and strategy to the Treasury Committee. Based on the analysis put up, the Treasury Committee would permit the Treasury Desk to enter into the strategy/ new product.
- ii. The Treasury Desk will transact only in those instruments which are allowed by the Reserve Bank of India and would obtain once a month an unambiguous Certificate from the providing Bank/ Institution stating as much. The Back Office will ensure that all transactions/ operations are as per the Rules and Regulations prevailing in India and that no breach of law has taken place in respect of any transaction. Exceptions if any would need to be reported to the Board.
- iii. Quarterly forex report to be generated by comparing the spot and realized amount.

7. Others

- i. Automation requirements to improve the Treasury Desk's operating efficiencies will be proactively identified.
- ii. The Internal Audit will ensure monthly audit/ review of the functioning of Treasury Desk under the overall guidance of the Treasury Committee.