

# **RISK MANAGEMENT PLAN**

**SRS REAL INFRASTRUCTURE LTD.**

(Adopted on 30.09.2014)

SRS Real Infrastructure Ltd. (SRSRIL) is 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.

This is in compliance with clause 49 of Listing Agreement, which requires SRSRIL to lay down procedures about the risk assessment and risk minimization.

### **Company Overview on Risk Management Plan**

SRSRIL adopts the risk management approach outlined in the Standard with sufficient flexibility to ensure it is able to adapt to the changing needs of the business. It is the firm belief of Management, the Committee and the Board that a robust risk strategy, a sound risk identification process and stringent risk reporting provide a solid framework for effectively managing risks.

### **Purpose of the Risk Management Plan**

The objective of the risk management policy is to identify, evaluate, monitor and minimize identifiable risk.

**Presently, the operations of the Company are divided into two segments Construction, Trading and Ready Mix Concrete (RMC).** The risks identified in each of the segments are as follows: -

### **Construction Segment**

*a) Technical risks:* In all construction projects, suitable information or data is required for a successful design. The Site investigation phase of any project plays a vital role, where inadequate characterization of the site, incomplete designs and non-appropriateness of specification may lead to project delays, disputes, claims and projects cost overruns.

*b) Financial risks:* The persistent rise in the global prices of oil and petroleum products are giving contagion effects in the prices of other raw material items as well. Further, the labour cost has also increased multifold in recent times. Thus, making the prices of residential and commercial properties dearer. The real estate industry is suffering from the dual problem of increasing borrowing costs as well as shrinking access to credit. The rising interest rates are acting as a double-edged sword for the real estate developers. On one side, the borrowing cost is rising rapidly and on other side, the volume of sales is also seeing a decline due to higher interest costs.

*c) Risk of Statutory Approvals:* The construction of any project requires multifold approvals from statutory authorities, like Environmental Clearances, Building sanctions, Municipal Corporation approvals, Town Planning Department etc. to name a few. Further, the bureaucratic approach of the statutory authorities further delays the approval process. Delays are tedious and vary from state to state depending on local laws.

*d) General Economic Risks:* Real estate industry is the most vulnerable industry in times of slowdown and recession. Without any change in the fundamentals of the Company, the revenue may shrink due to the general economic slowdown.

e) *Infrastructure Bottlenecks:* Infrastructure is a cause of concern in majority of cities across the country as recent infrastructure developments have been slow and has not kept in pace with the development. Inadequate power, connecting roads, absence of drinking water, electricity failure are common features that results in delay in possession.

f) *Delays in land acquisition:* Delays in land acquisition is a major source of project delays and escalating project costs. Acquisition of clear titled land is the most intricate task for the real estate developers. The litigation issues associated with lands makes all the more difficult for the developers to acquire land at reasonable cost.

g) *Delays in Master Plan / Development Plan Review and Implementation:* Experience of implementing the Master Plans have not been encouraging because of weak data base, financial constraints, lack of resource mobilization, over ambitious plan proposals, lack of integration between spatial planning proposals with economic development plans and inadequate legislative support and enforcement.

h) *Competition:* 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.

### **Trading and RMC Segment**

The building materials sector is extremely diverse and constitutes a sizable chunk of the industrial base of developed countries. It includes a highly diverse range of suppliers, from cement manufacturers (an area that is under tremendous pressure to both innovate and to “green up”) to specialty glass and steel manufacturers, as well as providing a large market for white goods manufacturers, furniture manufacturers, paint and wiring manufacturers, and a host of other related industries.

a) *Price risk:* Cost of Building Material fluctuates frequently due to changes in Government policies, this result in reduction of margin from trading of building material. Moreover, in RMC also increase in price of concrete leads to increase in cost of manufacturing cement.

b) *Quality risk:* This risk includes risk of poor quality of building material.

c) *Financial risk:* Delay in payments, bad debt of credit are some of the financial risks in trading segment.

### **Risk Management**

A typical risk management process includes the following key steps

- Risk identification;
- Risk assessment;
- Risk mitigation;
- Risk monitoring.

Risk identification is the first and perhaps the most important step in the risk management process, as it attempts to identify the source and type of risks. It includes the recognition of potential risk event conditions in the construction project and the clarification of risk responsibilities. Risk identification develops the basis for the next steps: analysis and control of risk management. Corrects risk identification ensures risk management effectiveness. The risk identification process would have

highlighted risks that may be considered by the management to be more significant and selected for further analysis.

Risk assessment is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat (also called hazard). A qualitative analysis allows the key risk factors to be identified. It is considered as an evaluation process which involves description of each risk and its impacts or the subjective labelling of risk (high/medium/low) in terms of both risk impact and probability of its occurrence. Quantitative risk analysis attempts to estimate the frequency of risks and the magnitude of their consequences. The application of the quantitative risk analysis allows the construction project exposure to be modelled, and quantifies the probability of occurrence of the identified risk factors as well as their potential.

Risk mitigation or Risk reduction is a systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence. Risk mitigation calls for a fine blend of centralized and functional controls. This includes several steps such as:

- Strong risk management processes are set up for each business and the risk management ethos is internalized by all employees of the Company. This ensures that a 'look-out' approach for risk management is set in place, helping the company to identify, assess and manage risk elements well in advance
- Responsibility with functional heads: each functional head has the responsibility of sound risk management as a part of his or her core KRA. This ensures that not only are the risk management processes set in place, but are also followed diligently
- Regular audits of the operations at each touch-point are carried out to ensure compliance with processes and physically verify the state of things, followed by a formal reporting
- Learnings from one team as well as experiences from diverse projects are openly shared with all the stakeholders in other divisions so that these learnings make people more attentive to possible pitfalls and ensure that similar mistakes are never repeated in the organization.
- For new projects, risk management processes kick in right from inception stage and go on until the launch state and thereafter. This ensures that even before a project gets off the ground, it has been adequately risk mapped – not only from the launch point of view, but also from the long-term operational view.

Risk monitoring control is the process of keeping track of the identified risk, monitoring residual risks and identifying new risk, ensuring the execution of risk plans, and evaluating their effectiveness in reducing risk. Risk monitoring and control records risk metrics that are associated with implementing contingency plans. Risk monitoring and control is an ongoing process for the life of the project. The risks change as the project matures, new risks develop, or anticipated risks disappear.

Good risk monitoring and control processes provide information that assists with making effective decisions in advance of the risk's occurring. Communication to all project stakeholders is needed to assess periodically the acceptability of the level of risk on the project.

The purpose of risk monitoring is to determine if:

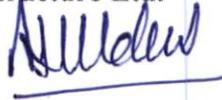
- Risk responses have been implemented as planned.
- Risk response actions are as effective as expected, or if new responses should be developed.
- Project assumptions are still valid.

- Risk exposure has changed from its prior state, with analysis of trends.
- A risk trigger has occurred.
- Proper policies and procedures are followed.
- Risks have occurred or arisen that were not previously identified.

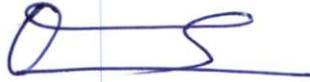
Risk control may involve choosing alternative strategies, implementing a contingency plan, taking corrective action, or replanning the project. The risk response owner should report periodically to the project manager and the risk team leader on the effectiveness of the plan, any unanticipated effects, and any mid-course correction needed to mitigate the risk.

For **SRS Real Infrastructure Ltd.**

Dr. Anil Jindal



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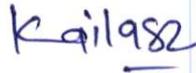
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