

# Risk and Opportunities Management

**Risks are inherent in business, emphasizing the need for a robust risk assessment and mitigation policy. At Varun Beverages, a reliable risk management process is constantly engaged in identifying, evaluating and managing potential and actual business risks.**

Our risk management process is operational across all our functions (production and distribution), facilities and countries we operate in. Early assessment of risk and their seamless management drives better decision-making and fosters preventive measures for impact control, ensuring business continuity and sustained growth.

## Risk Management Framework

### Risk Identification

- Develop a robust reporting system to effectively identify potential risks
- Collect insights from stakeholders, leveraging historical data, and industry benchmarks
- Systematically categorize key risks and delve into their root causes
- Set targets aligned with business objectives and identify potential opportunities and threats

### Risk Assessment

- Assess the probability of each identified risk occurring
- Evaluate the potential impact of each risk
- Prioritise risks based on their severity and likelihood

### Measure and Monitor Risks

- Periodic assessments to evaluate the status of risk
- Establish key performance indicators (KPIs)
- Implement a monitoring system to track emerging risks and changes in risk levels

### Risks Controls and Mitigation

- Develop risk mitigation strategies and controls for high-priority risks
- Assign responsibilities for implementing and monitoring risk controls
- Implement contingency plans for addressing risks if they materialise
- Continuously monitor the effectiveness of risk controls and adjust as necessary

Risk	Description	Mitigation Plan
<b>Demand Risk</b>	The risk of slowdown in the Company's target markets and adverse impact on its sales velocity caused by a cyclical downturn.	Varun Beverages' strategic approach to provide the right brand featuring right products at the right price and through the right channels, has enabled the Company to grow consistently in its sales volumes. An extensive portfolio, comprising a wide range of products, helps it to cater to the varying tastes and preferences of diverse consumer segments. Steady growth is also attributed to presence in relatively underpenetrated markets with favorable demographics, growing population, and advantageous climate.
<b>Business Agreement Risk</b>	The Company relies on strategic relationships and agreements with PepsiCo. Termination of agreements or less favorable renewal terms could adversely affect profitability.	Varun Beverages has steadily strengthened its partnership with PepsiCo over the past three decades, solidifying its market ties, expanding its territories and sub-territories, and diversifying its production and distribution capabilities across a broader array of PepsiCo beverages. These factors, along with the Company's focus on adding multiple SKUs into the portfolio and developing a stronger distribution network, has helped it to win a larger market share for PepsiCo, garnering its trust and continued patronage. The bottling appointment and trademark license agreement for India with PepsiCo India has been extended till April 30, 2039, from October 2, 2022, earlier, signifying strong partnership, built on the foundation of mutual trust and support. Collaborating as active development partners, investing in joint projects and business planning on strategic issues ensures a close and mutual beneficial relationship between the Company and PepsiCo.



Risk	Description	Mitigation Plan
<b>Regulatory Risk</b>	Regulatory risks to the Company include new and evolving regulations on consumer health. Business is also at the risk of adverse impact on account of Company's products being targeted for discriminatory tax and packaging waste recovery.	Sustainability is at the core of all business decisions and operations within Varun Beverages. Along with PepsiCo, the Company takes proactive steps to collaborate with the government and other regulatory authorities to ensure clear understanding of the facts and prevent unfair singling out of its products. VBL, along with the NGO's, communities it operates in, and other stakeholders, is continuously focused on establishing and implementing sustainability solutions in the areas of environment, social and governance. Eco-friendly manufacturing practices are consistently adhered to and strong emphasis is placed on addressing issues related to packaging waste recovery / recycling, water management and greenhouse gas emissions. As a part of its sustainability commitment and for phased implementation of 100% recycling of used PET bottles, VBL has collaborated with GEM Enviro Management Pvt. Ltd. Measurement and improvement in the Company's carbon footprint and water footprint assurance is further achieved through alliance with Deutsch Quality Systems (India) Private Limited. The Company also aligns with PepsiCo's strategy of introducing healthier and "zero sugar" variant of products, solidifying its position as a responsible brand that cares for its consumers.
<b>Business Viability Risk</b>	Business viability risk amounts to the financial and/or performance risk stemming from Company's inability to integrate the operations of newly acquired territories and sub territories or derive potential operating and cost efficiencies from them.	VBL's straightforward strategic approach and financial need ensures that any future acquisitions or partnerships comply with the Board's acquisition guideline and bring value to the Company. Performance of the newly acquired territories and business viability is ensured by the Company through concentrated efforts and initiatives. This includes significant financial investment and considerable time spent by the management to develop local market strategies that are capable of mitigating possible cultural and language barriers as well as incorporating existing business practices into new activities.
<b>Consumer Preference Risk</b>	Inability to adjust with the evolving consumer health trends and failure in clarifying misunderstandings about the health impacts of consuming soft drinks could harm demand.	Close collaboration with PepsiCo enables the Company to regularly evaluate the evolving habits of its consumers and align its product innovation with the changing demand, therefore augmenting its range of products and remaining relevant in the competitive business landscape. PepsiCo's new and healthy product plan with greater focus on zero / limited calorie content and sugar content also augurs well for VBL.
<b>Raw Material Risk</b>	An interruption in the supply or significant increase in the price of raw materials or packaging materials may adversely affect the Company's business prospects, results of operations and financial condition.	A series of initiatives and programs are implemented at VBL to optimize cost and operational efficiencies. Concentrated efforts, including backward integration and consolidated procurement of raw materials, are constantly made to reduce the cost of goods sold and increase the Company's cash flows. The Company also enjoys a good bargaining power with its suppliers owing to its scale of operation, resulting in better working capital management. Other than this, the Company is consistently committed to optimize its asset management and utilization, leading to higher operating efficiency and amortization of overhead costs on a wider case. Innovative solutions further augment VBL's process efficiency ensuring consolidated operational data from production, scheduled sourcing, and superior monitoring of the supply of goods from manufacturers to the retail point of sale.