

Managing risks

In this swiftly changing business landscape, characterised by dynamic customer demands, business risks undergo constant evolution, leading to a significant variation in the emerging risk landscape across industries. At Asian Paints, we monitor emerging risks to assess their short-term and long-term implications.

Risk management at Asian Paints

The Board's Risk Management Committee, including Independent Directors and Senior Management, adopted a robust framework to monitor and govern risks, ensuring strategic objectives are achieved. Our risk management framework follows best practices using the ISO 31000 framework.

→ Read more about the Committee's composition on page no. 24

The risk management function, under the Committee's guidance, formulates policies, identifies risks, and monitors mitigation measures to achieve strategic objectives. Functional Heads are responsible for ongoing implementation.

For us, the PESTLE factors (Political, Economic, Social, Technological, Legal and Environmental) continue to present dynamic risks. We successfully manage these risks, turning them into opportunities and strengthening our position.

We thrive in challenging macroeconomic conditions, backed by a resilient product portfolio that spans various price segments. Our adaptable business model allows us to swiftly respond to changing consumer and customer needs during economic downturns. We actively engage stakeholders, seeking sustainable partnerships for mutual benefit.

Navigating climate challenges

During the year, we conducted a climate risk assessment following the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We identified the Physical risks using recognised scenario analysis. The transition related risks and opportunities were analysed through sectoral analysis, analysis of policy & regulatory developments, boundary spanning, and interactions with Senior Management at Asian Paints.

The identified physical and transition risks are now incorporated into our Risk Management framework. Depending on the forecasted timing of climate impacts, resiliency measures have been identified to address the impact of these risks on our operations and tap the opportunities presented.

We follow a materiality matrix to identify critical risks. Each critical risk has a detailed risk management framework, outlining controls and responsible parties for both overall risk management and individual mitigation plans. Our assessment covers short-term and long-term risks, including emerging areas. Ongoing reviews occur, led by the Risk Management Committee and the Board.

RISK EVALUATION IS DRIVEN BY


- Financial objectives
- Overall strategy of Asian Paints
- Operations of Asian Paints
- Statutory compliance
- Reputation
- Reporting objectives

Risk matrix

Following is a summary of key risks we addressed in FY 2022-23 along with the key mitigation measures:

Strategic	<ol style="list-style-type: none"> 1 People risk 	<ol style="list-style-type: none"> 1 Shifting consumer preferences 2 Competition risk 3 Climate risk 4 Reputation risk
	<ol style="list-style-type: none"> 1 Evolving regulatory landscape 2 Process and Product Technology risk 3 Safety risk 4 Fraud risk 5 Statutory compliance risk 	<ol style="list-style-type: none"> 1 Counterfeit products 2 Information/Cyber Security risk
Operational	Endogenous	Exogenous

Risk mitigation

MATERIAL ISSUE IDENTIFIED	RISK/ OPPORTUNITY	RATIONALE FOR IDENTIFYING THE MATERIAL ISSUE AS RISK/ OPPORTUNITY	DESCRIPTION	MITIGATION STRATEGIES	FINANCIAL IMPACT (POSITIVE/ NEGATIVE)
 Shifting Consumer preferences	Risk and opportunity	Shifting consumer preferences ensure our offerings are in tune with changes in preferences. This can be both a risk and an opportunity for the business to provide differentiated solutions to consumers	Shifting of consumer preferences towards greener products, wholesome solutions, niche products, and a responsible brand	<ul style="list-style-type: none"> • Greater focus on differentiated and wholesome solutions and services like Beautiful Home Services • Providing customers with greener products through our range of certified low-VOC products, products with high durability, cool coating, and other Sustainable propositions* • Have a healthy new product pipeline offering value for money or catering to the specific needs of the consumer • Tie-ups to provide consumers a choice among a wider range of products and price points in the décor segment • Aggressively target the home décor and services space for building long-term connect with the consumer • Identify unique products and technologies basis patent landscaping, academic research, and competitor literature for exploration in new product development 	Both

Capitals impacted 










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Competition	Risk and opportunity	Risk: Loss of market share on account of increased competition Opportunity: Shift of the unorganised market to brand-based product offerings. Launch of differentiated solutions to consumers	Shift of end-consumers/dealers due to a higher number of choices	<ul style="list-style-type: none"> Launch of differentiated products, new variants in our existing portfolio, focus on ease of use as well as differentiated features Building on current relationships with dealers and ensuring dealer's profitable growth Upgradation of influencers, constant engagement through training, schemes, etc. 	Both
Capitals impacted					
Climate	Risk and opportunity	Risk: Changes in climate conditions manifest in the form of increased physical and transition risks which if not managed appropriately could impact business operations Opportunity: Minimise negative environmental impact of our operations while maximising the positive impact	Climate change-related impacts on operations	<ul style="list-style-type: none"> Identifying and assessing climate-related physical and transitional risks in line with TCFD recommendations. Action on short-term & long-term mitigation plans for addressing the impact of climate change on the operations of the company Include climate change in our long-term strategies and decision-making. Focus on energy conservation, improving renewable energy footprint, using alternate water sources, and ensuring water neutrality, emission reduction across operations and logistics, engaging with our suppliers to reduce their emissions* Extended producer responsibility to manage plastic waste* 	Both
Capitals impacted					
Reputation	Risk and opportunity	Risk: Negative publicity from any news/reports arising out of any act/inaction by the Company Opportunity: To improve brand presence and reputation through proactively managing possible issues	Positive or negative perception about the Company, its products/services which can impact its customers, revenues, liasioning with regulatory bodies etc.	<ul style="list-style-type: none"> Active monitoring of feedback on social media and addressing concerns in a timely manner Actively addressing product complaints and creating a delight for the customers at the end of the complaint addressal Ensuring product and service delivery as promised Compliance with all regulatory norms Strengthening corporate governance norms, including adherence to the code of conduct by all. 	Both
Capitals impacted					

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Evolving regulatory landscape	Risk	Risk: Non-compliances and penalties may result in a direct impact on the operations of the Company and cause financial stress	Changes in existing regulations/emerging regulations that may have an impact on our operations	<ul style="list-style-type: none"> Being the next level in the paint industry (ahead of the prevalent statutes) in India through benchmarking with the best in the world Well-governed compliance framework and controls Active engagement with policymakers and trade associations 	Negative
Capitals impacted					
Process and product technology	Opportunity	Opportunity: Technology is ever-evolving, and such transitions continue to provide opportunities to disrupt the offering to the customer with high efficiency and reliability	Technology as a disruptor continues to be a top uncertainty The digital economy has disrupted the interface of the customer with the industry Product and manufacturing technology continues to provide opportunities to disrupt the offering to the customer with high efficiency and reliability	<ul style="list-style-type: none"> Have a robust pipeline of ideas for patenting and implementation Regular benchmarking with global players and international patents in paint and related industries Identify players for tie ups on areas where there is a technology gap in the product portfolio Consciously invest in emerging digital technology and create a first-mover advantage with a differentiated offering Scanning and early adoption of efficient and cutting-edge processing technologies 	Positive
Capitals impacted					
Counterfeit products	Risk	Risk: Counterfeit and duplicate products pose a serious risk to the entire industry causing loss of revenue, poor performance of products, and less reliability of the brand	Counterfeit and spurious products are a global problem of enormous scale, impacting almost every sector, causing significant losses to the industry and the Government	<ul style="list-style-type: none"> Work with agencies and local authorities across states to identify and target spurious and counterfeit products manufacturers, including label printers, and conducting regular raids and legal action Augmenting/Enhancing anti-counterfeit measures in our packaging 	Negative
Capitals impacted					



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 People	Risk and opportunity	<p>Risk: Attrition of key talent impacting succession pipeline</p> <p>Opportunity: Introduction of lateral talent within the workforce and opportunities for growth to the existing employees</p>	Attrition of key talent impacting succession pipeline	<ul style="list-style-type: none"> Identifying and developing the talent pipeline for all individuals in leadership position Regular engagement evaluation and identification of pain points for employees. Conscious efforts to improve on such identified areas Pegging of remuneration and benefits with the industry 	Both
Capitals impacted 					
 Safety	Risk	<p>Risk: Risk of injury or occupational hazard</p>	The manufacturing operations of the Company require employees to interact with machinery, and material handling equipment which carry an inherent risk of injury and potential exposure to hazardous material/waste	<ul style="list-style-type: none"> Adherence to standards pertaining to OHS, the Company's EHS policy, and highest operational standards for handling hazardous materials Continuous engagement with suppliers for identifying any new threats/better options to mitigate the risks Periodic risk assessments using quantitative risk assessment and closure of action plans arising out of such assessments Having a comprehensive Emergency response (ERP) in place Plant design to adhere to inherent safe design based on various applicable standards and adopting Process Safety as a disciplined framework and closed loop handling of hazardous material Continuous progress in the Behaviour Based Safety journey by all plants 	Negative
Capitals impacted  					
 Fraud	Risk	<p>Risk: Frauds lead to loss of trust within the systems and operations of the Company, loss of revenue</p>	Fraud and hesitation to reporting of frauds	<ul style="list-style-type: none"> Revamped Code of Conduct policy in line with best-in-class governance practices Awareness sessions to encourage reporting of frauds and malpractices Investigations and disciplinary actions Stringent action against erring employees/entities involved Strengthening of fraud detection mechanism and periodic fraud risk assessments (FRA) 	Negative
Capitals impacted   					

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 Information/ Cyber security	Risk	<p>Risk: Loss of sensitive and confidential information and impact on the reputation of the Company</p>	Threats to external cyber-attacks/ hacking and internal leakage/ modification of information/ failure to protect information	<ul style="list-style-type: none"> Continuous protection of confidential information across the IT landscape Investment in contemporary IT tools to ensure adequate protection of underlying data Periodic audits to ensure adherence to the processes 	Negative
Capitals impacted  					

* Our efforts towards managing and mitigating our climate-related risks are centred on our approach towards reducing Scope 1 and Scope 2 GHG emissions, reducing value-chain emissions, while building resiliency measures in our operations. The details around our approach and achievements can be referred in the Natural Capital section, highlights¹ are presented below:

- 73.5% reduction in Scope 1 and Scope 2 intensity through 62.2% renewable electricity and 36% reduction in specific power consumption
- Sustainable product offerings – 30 certified low VOC products, 22 products with durability of 5 years or higher, formulation of first-of-its-kind paint – Nilaya Naturals with over 90% renewable ingredients
- 382% water replenishment through our on-site and off-site recharge projects, while reducing our non-process water consumption by 54%
- 71% reduction in specific hazardous waste disposal, 78% reduction in specific industrial effluent generation
- Collection and safe disposal of over 54000 MT of flexible plastics and rigid plastic across 23 states

Our 2025 and 2030 ESG targets, including climate change-related indicators, further our commitment in this area.

¹Highlights pertain to our paint manufacturing plants, improvements are against 2013-14 baseline year

Residual risks

There are certain remote possibilities that the impact of uncertainties such as earthquakes, acts of God, and macro-economic factors could go beyond the risk appetite articulated by us. Despite best efforts and intentions, these risks would continue to exist, and we would continue to take steps to reduce their impact.

Emerging risks

The Management has identified certain other uncertainties such as supply chain disruptions due to any political/geographical issues in any foreign country and market risks related to e-commerce to name a few. Preventive steps are being taken wherever necessary to reduce the impact of these uncertainties.

