Notes to consolidated financial statements for the year ended March 31, 2018

47. Financial risk management objectives and policies (Contd.)

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12-month period for hedges of actual sales and purchases and 12-month period for foreign currency loans.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

The Group hedges its exposure to fluctuations on the foreign currency loan by using foreign currency swaps and forwards.

At 31 March 2018, the Group hedge position is stated in Note 44. This foreign currency risk is hedged by using foreign currency forward contracts and full currency interest rate swaps.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

INR Crores

	Change in USD Rate	Effect on profit or loss	Effect on equity
March 31, 2018	1%	2	1
	-1%	(2)	(1)
March 31, 2017	1%	(9)	(6)
	-1%	9	6

INR Crores

	Change in EURO Rate	Effect on profit or loss	Effect on equity
March 31, 2018	1%	0	0
	-1%	(0)	(0)
March 31, 2017	1%	(2)	(1)
	-1%	2	1

The movement in the pre-tax effect is a result of a change in the fair value of monetary assets and liabilities denominated in US dollars, where the functional currency of the entity is a currency other than US dollars. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

Equity price risk

The Group's listed and non-listed equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The investment in listed and unlisted equity securities are not significant.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through counterparty's potential failure to make payments.

The Group's maximum exposure to credit risk for the components of the balance sheet at 31 March 2018 and 31 March 2017 is the carrying amounts as illustrated in Note 10 except for derivative financial instruments.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of the financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.