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Sub: Risk Management Policy

With the past experience and to ensure sustainable business growth with stability, the Company proposes to promote and implement a Risk Management policy, a pro-active approach in reporting, evaluating and resolving risks associated with the business.

The specific objectives of the Risk Management Policy shall be:

1. To ensure that all the current and future material risk exposures of the company to be identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
2. To establish a framework for the company's risk management process and to ensure its implementation.
3. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
4. To assure business growth with financial stability.

The Company recognizes that risk is an integral and unavoidable component of business and further wishes to manage the risk in a proactive and effective manner. The Company further believes that the Risk cannot be eliminated, but can try to eliminate the same using the following:

1. Transfer to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
2. Reduced, by having good internal controls;
3. Avoided, by not entering into risky businesses;
4. Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
5. Shared, by following a middle path between retaining and transferring risk.
6. **Ensure customer continuity by way of Quality satisfaction, Quantity requirements and meeting with other business compliances.**
7. **Contingency Plans, in case of discontinuation of customer.**

Risk Management Framework

Activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level shall be considered in the risk management framework. Since these components are interrelated and drive the Enterprise Wide Risk Management, the company initially shall focus on three key elements, viz.,

(1) Risk Assessment
(2) Risk Management
(3) Risk Monitoring

Risk Assessment

Risks are to be analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk Assessment shall consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

Risk Management and Risk Monitoring

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. Economic Environment and Market conditions
2. Fluctuations in Foreign Exchange
3. Political Environment
4. Competition

5. Revenue Concentration
6. Inflation and Cost Structure
7. Technological Obsolescence
8. Financial Reporting Risks
9. Legal Risk
10. Compliance with Local Laws
11. Quality and Project Management
12. Environmental Risk Management

Risks specific to the Company and the mitigation measure to be adopted:

1) Business dynamics & Operations Risks

<u>**Risk mitigation measures**</u>:

- The Company functions under a well-defined organization structure.
- Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
- Proper policies are followed in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.
- Customer Satisfaction in respect of Quality, Quantity and other business compliances.
- Long term customer relationship to be maintained.
- New business avenues to be found and contingency plan in case of discontinuation of Customer to be prepared.

2) Liquidity Risks

<u>**Risk Mitigation Measures:**</u>

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.
- Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.
- Cash management services are availed from Bank to avoid any loss of interest on collections
- Exposures to Foreign Exchange transactions are supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

3) Credit Risks:

<u>**Risk Mitigation Measures:**</u>

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up

4) **Market Risks / Industry Risks:**

<u>Risk Mitigation Measures:</u>

- Raw materials are procured from different sources at competitive prices.
- Alternative sources are developed for uninterrupted supply of raw materials.
- Demand and supply are external factors on which company has no control, but however the Company plans its production and sales from the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company's products.
- The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile, delivery mechanisms, technical inputs and advice on various aspects of, enhancement of capacity utilisation in customer-plants etc.
- Proper inventory control systems have been put in place.

Responsibility Structure

The Head of Operations (COO) shall be the Risk Management Head.

The COO shall be responsible for the implementation, identification and control measures for the risk at ground level.

Head- Marketing/ Business shall be responsible for creation, maintenance and compilation of all data including documents relating to the Risk Management and control measures of Risks.

Example: Documents relating to Insurance requirements, EPCG licenses, etc. till the conclusion of the necessary task/ project.

Head- Marketing/ Business shall review the same on regular interval due to close relations with Customers and shall ultimately report the same to the Compliance Officer for necessary reporting to the Stake Holders.

All the other departments and individual sections shall co-operate in setting these strategies (implementation and review).

All the other decisions involving significant risk associated with the business shall be reported to Board or the Audit Committee, where appropriate, for consideration and approval.

Reporting Significant Risk

The Head of the Department and Head of Operations (COO) shall determine the intensity of risks. The risks which are of higher impact shall be highlighted to the Management for further review.

Audit

The Finance Head or the Executive Director will make arrangements to audit the risk process for each Department as part of a regular cycle of audits and will report explicitly on the risk management processes to the Board.

Necessity of the Risk Management policy:

The Company is passing through many unidentified risks, which have adversely impacted the Company's performance. The Company still continues to be exposed to these unidentified risks which shall have an adverse impact on the Company's business in near future. Quantification of the impact of these risks is not possible at this stage. These unidentified risks are because of the failure to identify and control at the operational/ground level. The Company is facing problems relating to failure of Quality and Delivery compliances with customers on day to day basis.

Some of the examples of the discontinuation of customers due to the above referred problems, which had and still continue to have major impact on the business, are VCST, Volvo, Honeywell, Caterpillar, Hero Honda, etc.

While scrutiny of these failures, the Company has realised that these problems are not due to past legacies. These problems have currently arisen at ground level and intensified in the last 2-3 years' time.