# RISK MANAGEMENT POLICY

# OF

# GUJARAT AMBUJA EXPORTS LIMITED

## 1.1 Definitions

### 1.1.1 Act

Act means the Companies Act, 2013 read with Rules made thereunder including any statutory modification(s) or re-enactment thereof.

### 1.1.2 Audit Committee

Audit Committee means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015.

### 1.1.3 Company

Company means Gujarat Ambuja Exports Limited.

### 1.1.4 Control

Controls are defined as the power to influence or direct people's behavior or the course of risk events.

### 1.1.5 Likelihood

Likelihood is the probability or frequency of risk event occurring at any given period of time.

### 1.1.6 Policy

Policy means Risk Management Policy

### 1.1.7 Process

Process would mean series of actions or steps taken to achieve an end. All processes individually and severally shall cover all business activities for each of the risk assessment function.

### 1.1.8 Response Strategy

These are a set of activities that will determine the follow-up measures that will be undertaken by the Risk Management Committee to mitigate the risk.

### 1.1.9 Risk

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk.

**1.1.10 Risk Assessment**

Risk Assessment is defined as the overall process of risk identification, assessment, risk prioritization and execution of appropriate response strategy to ensure that effective and efficient controls or risk mitigation activities are in place to address potentially high- impact operational risks and take necessary steps to ensure that they are sustainable over a period of time.

**1.1.11 Risk Estimation**

Risk Estimation is the process of quantification of risks.

**1.1.12 Risk Event / Trigger Point**

Risk Event / Trigger Point can be defined as a discreet occurrence that negatively affects strategy, decision and process and results in a pecuniary loss.

**1.1.13 Risk Management**

Risk Management is the process of systematically identifying, quantifying, mitigating and managing all risks and opportunities that can affect achievement of a company's strategic and financial goals.

**1.1.14 Risk Management Process**

Risk Management Process" means the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

**1.1.15 Risk Strategy**

The Risk Strategy of a company defines the company's standpoint towards dealing with various risks associated with the business. It includes the company's decision on the risk tolerance levels, acceptance, avoidance or transfer of risks faced by the company.

**1.1.16 SEBI**

SEBI means Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992).

## 1.2 Regulatory Perspective

- **Responsibility of the Board:**

Section 134(3) of the Act requires the Board of Directors of a Company, as part of the Board's Report, to furnish a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

- **Responsibility of the Audit Committee:**

Section 177(4) of the Act states: Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include-

o Evaluation of internal financial controls and risk management systems.

- **Responsibility of the Independent Directors:**

SCHEDULE IV of the Act [Section 149(8)] - CODE FOR INDEPENDENT DIRECTORS

- II. Role and functions: The independent directors shall:
  - (1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;

    satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

- **Requirement under SEBI (Listing Obligations And Disclosure Requirements) Regulations, 2015,**

- SEBI (Listing Obligations And Disclosure Requirements) Regulations, 2015, across its different clauses, lays greater stress on risk policy being one of the vital functions of Board and requires that –
  - The board shall ensure that, while rightly encouraging positive thinking does not result in over-optimism that either leads to significant risks not being recognized or exposes the entity to excessive risk.
  - Disclosures in annual report - Risks & concern.
  - The Audit Committee will carry out the evaluation of risk management systems

## 1.3 Objectives of the Policy

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, including the development of the Identification Procedures, Risk Register, Risk Matrix, Risk Assessment and Mitigation measures in order to guide decisions on risk related issues. The main objectives of the Risk Management Policy includes:

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed
2. To establish a framework for the company's risk management process

and to ensure companywide implementation

3 To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices

4 To assure business growth with financial stability

5 To monitor and review the cyber security and related risks.

## 1.4 Risk Management Policy

In order to fulfill the objectives of this policy and lay a strong foundation for the development of an integrated risk management framework, the policy outlines the following guiding principles of Risk Management:

### 1.4.1 Principles of Risk Management

1. All business decisions will be made with the prior information and acceptance of risk involved.
2. The Risk Management Policy shall provide for the enhancement and protection of business value from uncertainties and consequent losses.
3. All employees of the company shall be made aware of risks in their respective domains and their mitigation measures.
4. The risk mitigation measures adopted by the company shall be effective in the long- term and to the extent possible be embedded in the business processes of the Company.
5. Risk tolerance levels will be regularly reviewed and decided upon depending on the change in company's strategy.
6. The occurrence, progress and status of all risks will be promptly reported and appropriate actions be taken thereof.

### 1.4.2 Risk Management Policy Statement

The policy statement is as given below:

1. *To ensure protection of shareholder value through the establishment of an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks.*
2. *To provide clear and strong basis for informed decision making at all levels of the Organisation.*
3. *To continually strive towards strengthening the Risk Management System through continuous learning and improvement.*

## 1.4.– Types of Risk affecting the Company

**1.4.1** Recognizing the kind of risks that Company is/may be exposed to, risks will be classified broadly into the following categories:

1. **Strategic Risk**: include the range of external events and trends (like Government policy, competition, Political and economical instability, Market

Dynamism, International economy, Foreign Currency risk) that can adversely impact the Company's strategic growth trajectory and destroy shareholder value.

2. **Business Risk**: include the risks associated specifically with the Company and having an adverse impact on the company's capability to execute activities critical for business growth, thereby affecting its near-term performance. Business Risk includes;

   **a) Concentration risk**
   It is defined as probability of loss arising from heavily lopsided exposure to a particular group of counterparties.

   **b) Competition risk**
   It is defined as probability of loss from decline in a firm's competitiveness on account of rivalry.

   **c) International operations risk**

   ***The inherent risks in conducting business internationally include:***
   i. ***country–risk or the risk of the region that we operate in, changes in politico-economic conditions, laws, or regulatory requirements.***
   ii. ***Country–specific tax obligations.***
   iii. ***Trade barrier and import/export licesing requirements***

3. **Operational Risk**: are those risks which are associated with operational uncertainties, like

   a. Risks arising for failures to comply with operational policies and procedures on a daily basis, e.g. maintenance, vendor engagement process, quality, etc.
   b. Risks arising from variations in the quality and availability of the Company's personnel, e.g. recruitment, training, remuneration, development, Employee Code of Conduct, attrition succession etc.
   c. Risks associated: IT with computer and communications hardware, software and data, e.g. obsolescence, security, availability, access, back-up, Preservation and classification etc.

4. **Force Majeure** events like floods affecting operations, theft of key equipment and other acts of God.

5. **Commodity risk**

   Factors that can affect commodity prices include political and regulatory changes, seasonal variations, weather, technology and market conditions. Commodity price risk is often hedged by major consumers. Unexpected changes in commodity prices can reduce a producer's profit margin, and make budgeting difficult. Futures and options are two financial instruments commonly used to hedge against commodity price risk.

6. **Compliance risk**

Compliance risks are those associated with the need to comply with laws and regulations. They also apply to the need to act in a manner which investors and customers expect, for example, by ensuring proper corporate governance. Risks arising from non-compliance with existing laws and regulations or the potential adverse impact of a change in rules and regulations, e.g. Health & Safety, Environmental, Labour Laws, Food & Safety Laws, Drugs, Concession and Permit requirements, SEBI Regulations compliances etc.

This Risk mainly includes risks related to:

a) **Direct Taxes:** It includes wrong exemptions taken, additions to income done during assessment proceedings, penalties, late filling of returns, poor response to department queries etc.

b) **Indirect Taxes:** It includes wrong credit taken, penalties, late filing of monthly / annual returns, issues arising during excise / vat audit etc. resulting in financial implications and penal proceedings

7. **Financial risk** for example non-payment by a customer or increased interest charges on a business loan, risks arising from failure to manage financial aspects, e.g. credit (customers), liquidity (availability of cash) and market risk exposures (foreign and commodity price fluctuations),interest rates and to provide complete, accurate and meaningful financial reports for internal and external users. Financial Risk includes:

**a) Credit risk**
It is defined as probability of loss arising from a Debtor's default on account of non-payment of financial consideration.

**b) Treasury/foreign exchange risk**
It is defined as probability of loss occurring from an adverse movement in foreign exchange rate.

8. **Environmental risks,** including pollution control measures of the Government. The potential for adverse effects and damage on living organisms/human life associated with pollution of the environment by effluents, emissions, wastes, or accidental chemical releases; energy use; or the depletion of natural resources.

9. **Health and safety risks** includes risk of food adulteration, accident/Incident that results in injury, illness, disease, damage or loss at workplace.

10. **Business development risk** includes failure of business strategies, product diversification, marketing strategies, competition, innovations etc.

11. **Market risk** includes changes in share price of the Company, BVPS, PE Ratio and other financial ratios.

12. **Risk of Unutilized Capacity:** One of the important segments of the Company is solvent extraction is highly affected by seasonal factors. So there are chances of financial losses in months in which there are no operations and lower production due to lack of orders.

13. **Product Liability Risk** includes liability on Company on account of supply of low/ bad quality products.

14. **Sustainability and Continuity Risks**

15. **Risks related to Financial Reporting / Ineffective Controls** includes non-compliance of Accounting Standard issued by the ICAI, Accruals not reversed in the beginning of the next period, reconciliation of balance sheet not prepared etc. resulting in misstatement in financial statements, ineffective controls resulting in frauds, errors, SOP non compliances, non-compliance of laws / Company policies.

## 1.5 Risk Mitigation/ Risk Management Process

**1.5.1** The risk mitigation can be planned using the following key strategies:

(a) Risk Avoidance: By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.
(b) Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.
(c) Risk Reduction: Employing methods/solutions that reduce the severity of the loss
(d) Risk Retention: Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default.

**1.5.2** Risk Management Process

The process of managing the Risk includes the following:

1. **Identify the Risks:** Risks in the company are identified through 1) inquires to management and other senior personnel 2) Observation/inspection and 3) By performing analytical procedures.

a) Inquiries are done regarding their operating style, incentive plans, budgets etc.
b) Inspection is done for business plans / strategies, internal controls, reports available in SAP, minutes etc.
c) Analytical procedures include comparing trends, growth and other quantitative data related to key risks.

2. **Evaluating and assessing the Risks:** Risks are evaluated keeping in

consideration their significance and likelihood of occurrence. Significance is assessed by the impact of it on profit / compliance / governance. Likelihood is judged by viewing the historic events of the occurrence of such risks and probability of its occurrence taking into consideration the weakness of internal controls leading to its frequency of occurrence.

Accordingly, the risks identified are categorized in Low / Medium / High.

Handling/Controlling the Risks by--
- Risk Prevention,
- Risk Avoidance,
- Risk Transfer,
- Risk Retention and
- Risk Control.

3. **Monitoring/Reporting**

4. **Risk Management Policy and implementation**

Objectives shall be set at the strategic level, establishing a basis for operations, reporting and compliance objectives. Identifying the most relevant risks based on situation, evaluate the level of risks based on probability and the significance of their potential impact. Decide appropriate management action to respond to assessed risk. Monitor the implementation and success of risk mitigation action plan. Report to the appropriate level to meet reporting requirements.

## 1.6 Risk Adjustment, Management and Minimization Procedure:

Actions to reduce the likelihood or impact by transfer the full or portion of the risk, e.g. hedging, insurance for fires, insurance for Directors and Officers liability cover, etc.

**1.6.1 - Commodity risk**
***We operate in a market in which commodity/raw materials/finished goods prices are fluctuating. We shall try to mitigate the risk by covering our position through hedging at commodities exchanges like CBOT, REFCO, NCDEX, NMCEX and such other commodity exchange.***

**1.6.2 - Concentration risk**
***In order to mitigate risk of putting all eggs in one basket, we derive our revenues from multiple products, various customers across geographic regions and industry domains. Thus we shall endeavor to remain diversified while still remaining focused on the agro processing.***

**1.6.3 - Competition risk**
***We operate in a highly competitive market and expect competition to increase further in the future. We always strive meet the challenges by satisfying our customers by offering wide range of products with the right quality at right time and with better services and after sales services.***

**1.6.4 - International operations risk**

***For meeting such risk we shall avoid high-risk countries and even if we do business with such countries we shall reduce/ hedge our risk by taking third country LC.***

**1.6.5 - Insurance**

***In order to reduce and mitigate identifiable risks, we shall have various insurance covers from reputed insurance companies and shall keep the company's properties and insurable interests insured. Besides wherever it is cost-effective we shall also hedge against the loss of profit by taking appropriate Insurance cover. We shall also cover risk of our Human resources including the key managerial personnel by taking Insurance Policies.***

**1.6.6 - Credit risk**

***We shall have laid down extensive norms related to credit period and payment terms and device a credit approval process. In addition to continuously appraising our existing and new customers, we shall have an internal rating mechanism, which seeks to rate/classify existing and new customers. The mechanism shall assign respective grading on the basis of which credit period, payment and other terms shall be decided.***

**1.6.7 - Treasury/foreign exchange risk**

***We continue to expand our business globally. A significant percentage of our total revenue approx. 40-45% comes in foreign exchange, which makes it crucial to monitor movements in the forex market.***

***Managing the risks from foreign currency rate fluctuations is the prime function of our finance and treasury department. We shall always keep a close watch on forex market and its trend and do daily review and analysis and take positions accordingly.***

- # Effective from 1st November, 2018, the foreign exchange exposure in relation to the crystallized import be allowed to the extent of 100% of Crystallized import and the foreign exchange exposure in ratio to exports for the financial year be allowed upto 100% of average of exports made during last three financial year.

  (# Amended vide resolution passed at Meeting of the Board of Directors held on 27th October, 2018.)

- ****[Periodical forex exposure is reviewed and the conscious decisions are taken to what extent forex transactions are to be covered are kept open. Further all such forex exposures through various instruments like forward contracts, derivatives, etc. are approved by Board and quarterly status are presented to the Board. All such transactions are authorized either by Chairman-cum-Managing Director or Managing Director of the Company.***

  ***The risk management policy covers the extent of risk exposure, measurement and control of risk. It also provides detailed guidelines as to accounting policy***

***and disclosure norms to be complied and the same are highlighted in the Annual Report of the Company. All such outstanding forex exposures are marked to market as per the accounting guidelines issued by the Institute of Chartered Accountants of India and treated as Hedge Reserve and the same are reported to Board periodically. All such transactions are verified by the Statutory Auditors of the Company and duly certified.]***

(* Amended vide resolution passed at Meeting of the Board of Directors held on 11th August, 2011 as per Notification No. RBI/2011-12/136 DBOD.No.BP.BC. 27/21.04.157/2011-12 dated 02-08-2011)

- *$ Effective from 3rd November, 2012, the foreign exchange exposure in relation to the crystallized import be allowed to the extent of 100% of Crystallized import and the existing limit of 50% of average exports made during the last 3 financial years to consider as outstanding at any given point of time.*

  ($ Amended vide resolution passed at Meeting of the Board of Directors held on 3rd November, 2012. However, the exposure related to exports does not include indirect hedging of export debtors by way of PCFC)

**1.6.8 - System of risk management and internal control**

***In addition to the above referred measures, the Company has set us a policy, which includes a review and assessment of the risk management system and risk profile for both financial and non financial risks.***

***We have set up an effective internal audit function, independent of the external auditors, to review the effectiveness of the risk management system.***

***Audit Committee of the Board oversees the risk management and internal control systems. This system is designed to identify, assess, monitor and manage risks and inform investors of any material changes to the Company's risk profile from time to time.***

## 1.7 Risk Management Committee:

The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director. The Members of the Committee shall meet atleast twice in a year the meetings shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings. The quorum for the meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including atleast one member of the board of directors in attendance.

The constitution of the Risk Management Committee includes:

1. Managing Director,

2. Whole-Time Director,
3. One Independent Director,
4. Chief Financial Officer, and
5. Company Secretary.

Such Committee will report to the Audit Committee and Board from time to time.

At plant level, audit committees have been formed, headed by plant heads of respective plants and constituting of functional departmental heads.

## 1.8 Risk Management Roles & Responsibilities of Risk Management Committee and Chief Risk Officer, appointed, if any:

The Risk Management Committee shall carry out the below roles and responsibilities, which may be assigned further to the Chief Risk Officer, if any, who shall be appointed by the Board of Directors of the Company based on the recommendation of Audit Committee:

1. To ensure adequacy of control frameworks to manage risks across the Organization.
2. To ensure the implementation and compliance with the risk management policy and process.
3. To define the risk management policy framework and process.
4. To formulate a framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
5. To take measures for risk mitigation including systems and processes for internal control of identified risks.
6. To frame and monitor business continuity plan, inter alia, ensuring that that there is an implementable, resilient business continuity strategy and framework in place to ensure necessary continuation of business during a disaster and that there be minimal disruption of
7. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
8. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
9. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
10. Promote and implement monitoring of risk management strategies and policies.
11. Ensure the implementation of risk management framework and process and ongoing risk assessment of risks.
12. Promote risk culture and ensures the risk management process is sustained Organisation wide.
13. To monitor and review the cyber security and related risks.
14. Powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

## 1.9 Residual Risk:

Inherent Risk includes the risk to an entity in the absence of any actions that management might take to alter the risk's likelihood or impact. Residual risk is the risk remaining after management's response to the risk.

Controls are implemented to mitigate that risk as and when the significance of such risk is considered material.

The entity's risk assessment is documented in a Risk Register and risk score shall be presented to the board. Specimen reports forms part of this Policy document.

The following are the definitions of Significance and likelihood considered for various risks:

Significance and Likelihood Benchmarking

1) Raw Material Price Fluctuations

A) Cotton Prices:

Significance Benchmarking:

| Particulars | Fluctuation in RM Prices (in%) | Impact Scale |
|---|---|---|
| Incidental Risk | 0-10 | 1 |
| Minor Risk | 10-20 | 2 |
| Moderate Risk | 20-30 | 3 |
| Major Risk | 30-50 | 4 |
| Extreme Risk | Above 50 | 5 |

Likelihood Analysis

| Rating | Frequency | Description |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

B) Maize Prices:

Significance Benchmarking:

| Particulars | Fluctuation in RM Prices (in%) | Impact Scale |
|---|---|---|
| Incidental Risk | 0-10 | 1 |
| Minor Risk | 10-20 | 2 |
| Moderate Risk | 20-30 | 3 |
| Major Risk | 30-50 | 4 |
| Extreme Risk | Above 50 | 5 |

Likelihood Analysis

| Rating | Frequency | Description |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

C) Soya Seed:

Significance Benchmarking:

| Particulars | Fluctuation in RM Prices (in%) | Impact Scale |
|---|---|---|
| Incidental Risk | 0-20 | 1 |
| Minor Risk | 20-40 | 2 |
| Moderate Risk | 40-50 | 3 |
| Major Risk | 50-60 | 4 |
| Extreme Risk | Above 60 | 5 |

Likelihood Analysis

| Rating | Frequency | Description |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

D) Oil Prices:

Significance Benchmarking:

| Particulars | Fluctuation in RM Prices (in%) | Impact Scale |
|---|---|---|
| Incidental Risk | 0-10 | 1 |
| Minor Risk | 10-20 | 2 |
| Moderate Risk | 20-30 | 3 |
| Major Risk | 30-50 | 4 |
| Extreme Risk | Above 50 | 5 |

Likelihood Analysis

| Rating | Frequency | Description |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

Note: While deciding significance, due consideration is given to the fact that whether such burden of increase in prices is transferred to customers or not. Stock status is also reviewed for considering the risk review.

2) Currency Fluctuations

A) Imports and Exports

Significance Benchmarking

| Particulars | Impact on Profitability (In Lacs) | Impact Scale |
|---|---|---|
| Incidental Risk | Below 10 | 1 |
| Minor Risk | Between 10 to 20 | 2 |
| Moderate Risk | Between 20 to 30 | 3 |
| Major Risk | Between 30 to 40 | 4 |
| Extreme Risk | Above 40 | 5 |

Likelihood Analysis (if fluctuation more than 5%)

| Rating | Frequency | Description |
|---|---|---|
| 5 | Frequent | Once in a month |
| 4 | Likely | Once in a quarter |
| 3 | Possible | Once in a year |
| 2 | Unlikely | Once in 2 years |
| 1 | Rare | Once in 5 years |

B) Hedging Ratios

Significance Benchmarking

| Particulars | Hedging % | Impact Scale |
|---|---|---|
| Incidental Risk | 80% to 100% | 1 |
| Minor Risk | 60% to 80% | 2 |
| Moderate Risk | 40% to 60% | 3 |
| Major Risk | 20% to 40% | 4 |
| Extreme Risk | Below 20% | 5 |

Likelihood Analysis (if fluctuation more than 5%)

| Rating | Frequency | Description |
|---|---|---|
| 5 | Frequent | Once in a month |
| 4 | Likely | Once in a quarter |
| 3 | Possible | Once in a year |
| 2 | Unlikely | Once in 2 years |
| 1 | Rare | Once in 5 years |

3) Safety

- Explosion, fire and harm to assets including human, leakage/spillage of large quantity of chemicals may lead to loss of property, human life and affect the business of the Company.
- Risk significance is decided on the basis of death of a worker, permanent disability, temporary disability, major accidents etc.

Likelihood Analysis:

| Rating | Frequency | Instances |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

4) Environmental, Social and Governance related issues:

- Non- adherence to norms specified by respective Pollution Control Boards as per consent to operate under Air & Water (P & C of pollution) Act, HW (M&H) Rules Act, EPA etc.
- Risk Significance is decided on the basis of permanent closure of business, temporary closure, show cause notices with penalties, inspections, warnings etc.

Likelihood Analysis**:**

| Rating | Frequency | Instances |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

5) DGFT Licenses:

- Export incentives are held up due to certain technical issues in the shipping documents. Issues are being sorted out.

- Risk Significance is decided on the basis of pending licences, disallowance of claims, show cause and penalties, wrong claims, wrong interpretations, incomplete information in the documents.

Likelihood Analysis:

| Rating | Frequency | Ageing |
|---|---|---|
| 5 | Frequent | More than 5 years |
| 4 | Likely | More than 3 years |
| 3 | Possible | More than 2 years |
| 2 | Unlikely | More than a year |
| 1 | Rare | More than 6 months |

6) Working Capital Management Risk:

- Significant Increase in the working capital cycle can affect the liquidity position of the company, resulting in blockage of funds & higher interest cost.
- Risk Significance is decided taking into consideration movement of receivables, inventory rotations, collection efficiency, free cash flows etc.

7) Risk related to Taxes, Duties & Compliances:

Risk relating to Income Tax, Excise Duty, GST, Service Tax, Customs Duty, VAT, CST, Professional Tax, PF, ESIC, Secretarial Compliances and Filing, SEBI Compliances and Investors related obligations etc.

Likelihood Analysis:

| Rating | Frequency | Show Cause Notices |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

8) Failure of Information Technology Set up / Software license compliance:

- Natural disaster-destroying server room/Fire/Hazard/Access control, Failure of ERP Servers, Hacking, Virus attack & Failure VPN Connectivity apart for one risk of failure of systems due to relocation
- Software licenses compliance Usage not matching in quantity or as per licensing policy, resulting in unexpected financial liability.
- The below mentioned likelihood analysis is applicable for all sub-categories of IT Risks:

Likelihood Analysis:

| Rating | Frequency | Show Cause Notices |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

9) Loss of Managerial Personnel / Technical Employees:

- High Replacement cost as it includes recruitment cost, salary rise and training and development cost.
- If Critical positions remain vacant, this may result into loss of business.

Likelihood Analysis:

| Rating | Frequency | Frequency of senior personnel leaving the organization |
|---|---|---|
| 5 | Frequent | Once in a year |
| 4 | Likely | Once in 2 years |
| 3 | Possible | Once in 5 years |
| 2 | Unlikely | Once in 10 years |
| 1 | Rare | Never Happened |

10) <u>Risks related to Financial Reporting:</u>

- Its significance depends on adverse remarks made by auditors (both at plant and HO Level) about operational inefficiency, Revenue losses, lack of internal control leading to material frauds / mistakes etc.

Likelihood Analysis**:**

| Rating | Frequency | Frequency of Material Audit Observation reported |
|---|---|---|
| 5 | Frequent | Every Quarter |
| 4 | Likely | Once in six months |
| 3 | Possible | Once in a year |
| 2 | Unlikely | Once in 3 years |
| 1 | Rare | Rarely reported |

11) <u>Competition Risk:</u>

- Significance depends on company's low performance as compared to industry's performance, loss of market share in important operating segments, loss in % exports of core products as a part of industry exports, loss of important customer etc.
- Likelihood will be decided on the basis of frequency of loss of company's market share as compared from quarter to quarter basis.

12) Product Liability Risk:

- Significance depends on high number of sales returns in a period, loss of important customer, product seized by statutory authorities which were not produced as per regulatory standards etc.

Likelihood Analysis:

| Rating | Frequency | Frequency of any material sales return / product seized by authorities |
|---|---|---|
| 5 | Frequent | Every Quarter |
| 4 | Likely | Once in six months |
| 3 | Possible | Once in a year |
| 2 | Unlikely | Once in 3 years |
| 1 | Rare | Rarely reported |

13) Risk of Unutilized Capacity:

- Significance depends on amount of losses due to non-absorption of fixed costs leading to operating losses.

Likelihood Analysis:

| Rating | Frequency | Period until which there are no operations in a particular unit |
|---|---|---|
| 5 | Frequent | 6 Months |
| 4 | Likely | 4 Months |
| 3 | Possible | 3 Months |
| 2 | Unlikely | 1 Month |
| 1 | Rare | Continuous operation |

14) Deterioration in Economic Value Addition:

- Significance depends on any normal factors, which led to decrease in Shareholders wealth and difference between Shareholder's expectation towards increase in wealth vis-a-vis actual increase.

| Rating | Frequency | Period of reduction in EVA |
| --- | --- | --- |
| 5 | Frequent | Reduction trend for continuous 3 years |
| 4 | Likely | Reduction trend for continuous 2 years |
| 3 | Possible | Reduction trend for continuous 6 months |
| 2 | Unlikely | Reduction trend, a period only |
| 1 | Rare | No Reduction at all |

**1.10 Amendment:**

The Board of Directors may in their discretion and on recommendation of the Audit Committee, make any changes/modifications and/or amendments to this Policy from time to time, as it deems fit, or from time to time, and the decision of the Board shall be final and binding. Any subsequent amendment / modification in the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and / or any other laws in this regard shall automatically apply to this Policy. In the event of any conflict between the provisions of this Policy and of the Act or SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 or any other statutory enactments, rules, the provisions of such Act or SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 or statutory enactments shall prevail and automatically be applicable to this Policy.

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