RISK MANAGEMENT POLICY

BACK GROUND AND IMPLEMENTATION

Enterprise risk management was not mandatory according to the Companies Act, 1956. However, as per the new law, there are specific requirements that a company needs to comply with. In addition, the board and audit committee have been vested with specific responsibilities in assessing the robustness of .risk management policy, process and systems.

This document is intended to formalize a risk management policy the objective of which shall be identification, evaluating, monitoring, and minimizing identifiable risks.

KEY COMPLIANCE REQUIREMENTS

Section 134: The board of directors' report must include a statement indicating development and implementation of a risk management policy for the company including identification of elements of risk, if any, which in the opinion of the board may threaten the existence of the company

Section 177: The audit committee shall act in accordance with the terms of reference specified in writing by the board, which shall, inter alia, include evaluation of risk management systems.

Schedule IV: Independent directors should satisfy themselves that systems of risk management are robust and defensible.

Clause 49 of Listing Agreement: requires Chokhani International Limited to lay down procedures about the risk assessment and risk minimization

KEY CONSIDERATIONS

Board, independent directors, executive management etc., must assess risks arising from external factors (black swan, economic conditions, regulatory, competitive etc.) while evaluating the robustness of risk management systems.

Executive management needs to:

- Embed risk management across all the business units and critical support functions

- Make risk management everyone's responsibility

- Link risk management to business performance of the company.

INTRODUCTION

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009.

RISK MANAGEMENT

i). The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.
ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.
It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimize their adverse impact on the organization.

RISK STRATEGY:

Name of the co. recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.
The Company believes that the Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky businesses;

- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

RISK MANAGEMENT FRAMEWORK:

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.
The Objectives of the Company can be classified into

STRATEGIC:

•Organizational Growth.

•Comprehensive range of products.

•Sustenance and Growth of Strong relationships with dealers/customers.

•Expanding our presence in existing markets and penetrating new geographic markets.

•Continuing to enhance our industry expertise.

•Enhance our capabilities through technology alliances and acquisitions.

OPERATIONS:

•Consistent Revenue growth.

•Consistent profitability.

•High quality production.

•Further develop Culture of Innovation.

•Attract and retain quality technical associates and augmenting their training.

REPORTING:

•Maintain high standards of Corporate Governance and public disclosure.

RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED:

- **BUSINESS DYNAMICS:**

Variance in the demand and supply of the product in various areas. Based on experience gained from the past and by following the market dynamics as they evolve, the Company is able to predict the demand during a particular period and accordingly supply is planned and adjusted.

- **BUSINESS OPERATIONS RISKS:**

These risks relate broadly to the company's organization and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organization and management risks,
- Production, process and productivity risks,
- Business interruption risks,

RISK MITIGATION MEASURES:

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.

- **MARKET RISKS/ INDUSTRY RISKS:**

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time, interest rate risks , Raw material rates
- Interruption in the supply of Raw material

RISK MITIGATION MEASURES:

- 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 de-bottlenecking procedures, enhancement of capacity utilization in customer-plants etc.
- Proper inventory control systems have been put in place.

➢ **CREDIT RISKS:**

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

RISK MITIGATION MEASURES:

- 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.

➢ **LOGISTICS RISKS:**

- Use of outside transport sources.

RISK MITIGATION MEASURES:

- Exploring possibility of an in-house logistic mechanism if the situation demands.
- Possibilities to optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.
- Company has a dedicated transport group to handle all requirements

- **<u>HUMAN RESOURCE RISKS:</u>**

- Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.
- Unrest Risks due to Strikes and Lockouts

- **<u>SYSTEM RISKS:</u>**

- System capability
- System reliability
- Data integrity risks
- Coordinating and interfacing risks

<u>RISK MITIGATION MEASURES:</u>

- IT department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- Password protection is provided at different levels to ensure data integrity.
- Licensed software is being used in the systems.
- The Company ensures "Data Security", by having access control/ restrictions.
  Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.
- The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- Contracts are finalized as per the advice from legal professionals and Advocates.
- Insurance policies are audited to avoid any later disputes.
- Timely payment of insurance and full coverage of properties of the Company under insurance.
- Internal control systems for proper control on the operations of the Company and to detect any fraud.
- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
- Employees are trained at regular intervals to upgrade their skills.
- Labour problems are obviated by negotiations and conciliation.
- Activities relating to the Welfare of employees are undertaken.

- Employees are encouraged to make suggestions and discuss any problems with their Superiors

- **LEGAL RISKS:**

  These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

RISK CONTROL:

1. Risk limitation or reduction is the prime objective in framing the policy.

2. The company will keep net open position limits in accordance to the approval of the Risk Management Committee and also consider the natural insurance cover into consideration.

3. Company's bankers are consulted and suitable exposures in the form of limited buyers' credit and other instruments are evolved to mitigate exchange rate fluctuations as well as in interest rates tied to LIBOR and other like rates.

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