

RISK MANAGEMENT POLICY

Introduction

Oxford Dictionary defines the term “**risk**” as a chance or possibility of danger, loss, injury or other adverse consequences.

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 purpose of this Policy is to ensure the company’s standards for risk-taking while conducting business and to provide an easy-to-access guide any time.

Regulatory

Risk Management Policy is framed as per the following regulatory requirements:

A. COMPANIES ACT, 2013

1. Provisions of the Section 134(3)

There shall be attached to financial statements laid before a company in general meeting, a report by its Board of Directors, which shall include—

(n) 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.

2. Section 177(4) stipulates:

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

(vii) evaluation of internal financial controls and risk management systems.

3. SCHEDULE IV [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 specially on issue of strategy, performance, **risk management** resources, key appointments and standards of conduct;

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

B. Clause 49

Key functions of the Board

The board should fulfill certain key functions, including;

a. Reviewing and guiding corporate strategy, major plans of action, **risk policy**, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments.

g. Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, **systems for risk management**, financial and operational control, and compliance with the law and relevant standards.

D. Role of Audit Committee

The role of the Audit Committee shall include the following:

11. Evaluation of internal financial controls and risk management systems;

Risk Strategy:

The Company recognises 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.

The Company is a diversified company committed to excellence. The Company has Heavy Engineering plant, the product range of the company comprises:

- Manufacture & Marketing of Heavy Forging products
- Heavy Engineering plant has facilities for casting, fabricating and machining heavy equipment for engineering products.
- Captive power generation (Wind & Thermal power) with state-of-the art and eco-friendly technology

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, legal Risk.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the firm. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the firm and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

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.

Compliance:

- Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/ standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary.

Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures

The Company adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Assessment and Minimization Committee with functional heads and the Company Secretary as members. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organisation,

We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; Subsidiary and Joint Venture level are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz.,

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

Risk Assessment

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed.

Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

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

Our customers concentrated in Ship-building, Oil & Gas, Power, Heavy Engineering, Defense and Space infrastructure industries. Economic slowdowns or factors that affect the economic health of our customers' countries and the said industries may increase risk to our revenue growth.

Strategically, we seek to continuously expand the customer base to maximize the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of our record of satisfactory performance in our earlier dealings. The efforts to enhance quality of products and upgrading their performance parameters are aimed at deriving optimum value from the existing customer base and targeting a larger customer profile. Historically, the strength of our relationships has resulted in significant recurring revenue from existing customers.

To counter pricing pressures caused by strong competition, the Company has been increasing operational efficiency and continued to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.

2. Fluctuations in Foreign Exchange

While our functional currency is the Indian rupee, we transact a significant portion of our business in USD/Euro and other currencies and accordingly face foreign currency exposure from our sales in other countries and from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

We manage risk on account of foreign currency fluctuations through limited hedging of specific transactions with our Bankers. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to achieve greater predictability and stability. Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with limited hedge cover so that moderate arbitrage efficiency is achieved against the existing borrowing rates of interest. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

3. Competition

The markets for Heavy Forgings are rapidly evolving and highly competitive and we expect that competition will continue to intensify due to establishment of new capacities, expansion of existing capacities and consolidation of operations across the Forging sector.

We believe that we are strongly positioned in our designated market commanding a premium for our product. Exploiting the traditionally strong relationship with our dealers to market the higher production of Forging is an equally valid strategy being pursued.

It is also believed that the engineering expertise of the company in the manufacture of Forging products, technical know-how within the company, the emphasis on high quality will also substantially minimise the impact of market fluctuations compared to other players.

Additionally, efforts to bring down the cost of production are being implemented with a reduced workforce backed by high-end production technology, establishment of captive power generation in the factory area itself, brand exploitation with common media publicity promotion etc.

4. Inflation and Cost Structure

The cost of revenues consists primarily of raw materials including gas, power; etc., The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for procurement of long delivery and strategic raw materials and stores and those amenable to just-in-time inventories.

At organizational level, cost optimisation and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial model. The focus on these initiatives has inculcated across the organization the importance of cost reduction and control.

5. Technology Obsolescence

Company's philosophy is to 'Modernise, Indigenise, Never Compromise on Technology'

The company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology. Established contacts with leaders in technology, particularly in the areas of the company's operations, have dividends in our ability to access to newer and evolving processes and their applications in the manufacture of capital goods. This has led to the company establishing a lead with customers and sharing with them the benefits of such technological advances quicker than the market.

The company's policies also include a favorable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements

6. Financial Reporting Risks

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with Indian GAAP and in accordance with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances including consultation with experts in the field, scrutiny of published data for the particular sector or sphere, comparative study

of other available corporate data, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks. We believe that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.

7. Quality and Project Management

The Company is engaged in manufacture of Heavy engineering equipment for various industries as per mutually accepted requirements of the Customers.

Our Commitment towards total Quality Management is to forge the Human Resources of our organisation into a team that promotes continual improvement in quality of products and services.

Considerable focus is given to adherence to targeted dates and commitment to quality in every project and customer feedback is studied with personal interaction with them before, during and after project completion.

The Company, a pioneer in producing premier forging products and is committed to maximise customer satisfaction and keep a clean and safe environment.

8. Environmental Risk Management:

The Company endeavours to protect the environment in all its activities, as a social responsibility.

The legal exposure in this regard is when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding is an offence.

For control of water pollution the Company has setup a sewage treatment plant at its Heavy Forging plant for the treatment of sewage/effluent and it is further used for gardening and plantation and the industrial waste water generated from the plants is re-circulated into the process.

9. Human Resource Management

“The vision of the Company is to achieve Organisational excellence through innovation”

The Company’s Human Resources Development (HRD) Department will add value to all its departments by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to manufacturing procedures etc. It is believed that a satisfied and committed employee will give of his best

and create an atmosphere that cannot be conducive to risk exposure.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance. Packages are inclusive of the proper incentives and take into account welfare measures for the employee and his family.

We seek to provide an environment that rewards entrepreneurial initiative and performance.

Disclaimer Clause

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.