

## **RISK MANGEMENT POLICY**

**( Approved by the Board in their meeting held on 14<sup>th</sup> February, 2015 )**

### **Introduction**

Like every business the Company faces numerous risks. These risks have the potential to disrupt achievement of the Company's strategic and operational objectives. The Company aims to use risk management to take better informed decisions and improve the probability of achieving its strategic and operational objectives.

### **Constitution of Risk Management Committee**

Keeping in line with Clause 49 (VI) of Listing Agreement Board of Directors of the Company at its meeting held on 14<sup>th</sup> February, 2015 has constituted a Risk Management Committee and the following are its members:

<b>Sr.No.</b>	<b>Particulars</b>	<b>Designation</b>
1.	Shri Tribhuvanprasad Kabra	Managing Director
2.	Shri Mahendrakumar Kabra	Director
3.	Shri Satyanarayan Loya	Director
4.	Shri Hemant Kabra	Chief Financial Officer
5.	Shri Iqbal Singh	Assistant General Manager- Finance

### **Policy Objectives**

- To confirm and communicate the Company's commitment to risk management to assist in achieving its strategic and operational goals and objectives.
- To formalise and communicate a consistent approach to managing risk for all Company activities and to establish a reporting protocol.
- To ensure that all significant risks to the Company are identified, assessed and where necessary treated and reported to the Board of Directors in a timely manner through the Company's audit committee.
- To assign accountability to all staff for the management of risks within their areas of control.
- To provide a commitment to staff that risk management is a core management activity.

This policy is a formal acknowledgement of the commitment of the Company to risk management. The aim of the policy is not to have risk eliminated completely from Company

activities, but rather to ensure that every effort is made by the Company to manage risk appropriately to maximise potential opportunities and minimise the adverse effects of risk.

### **Scope of the policy**

Risk is an inherent aspect of all commercial business activities. Sound risk management principles must become part of routine management activity across the Company.

The key objective of this policy is to ensure the Company has a consistent basis for measuring, controlling, monitoring and reporting risk across the Company at all levels.

The Policy details the risks, the Board's approach, risk responsibilities and Risk Owners, how the risk is assessed, risk process, management of the risk, rollout and review of the risk policy.

### **What is Risk?**

Risk exists as a consequence of uncertainty and is present in all activities whatever the size or complexity and whatever industry or business sector. It is important to understand that risk is a broader concept than the traditional view of merely a threat. It also recognises the risks of taking or not taking opportunities.

*Risk includes:*

Threats (damaging events) which could lead to failure to achieve objectives. Opportunities (challenges) which if exploited could offer an improved way of achieving the desired objectives but which could potentially have negative impacts.

The Company considers all types of risk it faces, strategic, operational, financial, reputational and regulatory and compliance risks. Appendix I gives a list of the different categories of risks.

### **Risk Management Strategy:**

There are five steps to management of risks identified in the risk register which consists of:

1. Identifying the risks to achieving strategic and operational objectives
2. Determining the owner of the risk
3. Determining and assessing the existing controls in place
4. Assessing the impact and likelihood of the risk after taking account of existing controls to derive the net risk
5. Determining further control improvements to mitigate the risk and indicate what their impact on net risk will be when they are fully implemented.

Risk can be assessed using brainstorming sessions, SWOT analysis or risk assessment user groups. Management groups should carry out an annual review of the linkages between

strategic objectives and risks to ensure that focus is maintained on priority activities. The steps to be taken by the management are listed in Appendix II.

## **Appendix I**

### **Categories of Risk**

This appendix provides a prompt which can be used to aid risk discussions. These can be used as a guide, a starting point or as a checklist for existing registers

#### **A. Strategic Risk – Major Threats**

Sources of threat that may give rise to significant strategic risk includes:

- i. Budgeting (relates to availability or allocation of resources)
- ii. Fraud or Theft
- iii. Unethical dealings
- iv. Product and or services failure (resulting in lack of support to business process)
- v. Public perception and reputation
- vi. Exploitation of workers and or suppliers (availability and retention of suitable staff)
- vii. Environmental (mismanagement issues relating to fuel consumption, pollution etc)
- viii. Occupational health and safety mismanagement and or liability
- ix. Failure to comply with legal and regulatory obligations and or contractual aspect (can you sue or be sued)
- x. Civil Action
- xi. Failure of the infrastructure (including utility supplies, computer networks etc)
- xii. Failure to address economic factors (such as interest rates, inflation)
- xiii. Political and market factors (for management of risk, security etc)
- xiv. Operational procedures – adequate and appropriate
- xv. Capability to innovate (to exploit opportunities)
- xvi. Failure to control intellectual property (as a result of abuse or industrial espionage)
- xvii. Failure to take account of widespread disease or illness among the workforce
- xviii. Failure to complete to published deadlines or timescales
- xix. Failure to take on new technology where appropriate to achieve objectives
- xx. Failure to invest appropriately
- xxi. Failure to control IT effectively
- xxii. Failure to establish a positive culture following business change
- xxiii. Vulnerability of resources (material and people)
- xxiv. Failure to establish effective continuity arrangements in the event of disaster
- xxv. Inadequate insurance/contingency provision for disasters such as fire, floods and bomb incidents.

#### **B. Commercial Risks**

Examples of commercial risks includes

- i. Under performance of service relative to specification
- ii. Management will under perform against expectations

- iii. Collapse of contractors
- iv. Insolvency of promoter
- v. Failure of suppliers to meet contractual commitments (this could be in terms of quality, quantity, and timescales on their own exposures to risk)
- vi. Insufficient capital investment, shortfall in revenue expected / planned
- vii. Fraud/Theft
- viii. Partnerships failing to deliver desired outcome
- ix. An event being non insurable or cost of insurance outweighs the benefit

#### **Economical/Financial/Market**

- i. Exchange rate fluctuation
- ii. Interest rate instability
- iii. Inflation
- iv. Shortage of working capital
- v. Failure to meet project revenue targets
- vi. Market developments will adversely affect plans

#### **Legal and Regulatory**

- i. New or changed legislation may invalidate assumptions upon which the activity is based
- ii. Failure to obtain appropriate approval (e.g. planning consent)
- iii. Unforeseen inclusion or contingent liabilities
- iv. Loss of intellectual property rights
- v. Failure to achieve satisfactory contractual arrangements
- vi. Unexpected regulatory controls of licensing requirements
- vii. Changes in tax structure

#### **Organisation/Management/Human Factors**

- i. Management incompetence
- ii. Inadequate corporate policies
- iii. Inadequate adoption of management practices
- iv. Poor leadership
- v. Key personnel have inadequate authority to fulfil roles
- vi. Poor staff selection procedures
- vii. Lack of clarity over roles and responsibilities
- viii. Vested interest creating conflict and compromising the overall aims
- ix. Individual or group interests given unwarranted priority
- x. Personality clashes
- xi. Indecisions or inaccurate information
- xii. Health and safety constraints

### **Appendix II**

#### **Risk Responsibilities**

It is essential that all participants in risk management are aware of their roles in the overall process and their own responsibilities.

## **Board of Directors**

The Board has responsibility for the total risk exposure of the Company by:

- Setting the tone and influence of the culture of risk management across the Company
- Determining the extent to which the Company is “risk taking” or “risk averse” as a whole sets the Company’s risk tolerance line
- Approving major decisions affecting the Company’s risk profile or exposure
- Determining what types of risk are acceptable/not acceptable and monitoring significant risks and control improvements to mitigate risks
- Annually reviewing the Company’s approach to risk management and approving changes or improvements to key elements of the process and procedures

### **To aid this, Board will receive**

An annual report from Internal Auditor, on the effectiveness of the risk management process in the Company, making recommendations when necessary.

## **Planning and Management Executive**

The Planning and Management Executive, advised by the Chief Financial Officer, is responsible for corporate risks by:

- i. Identifying and evaluating the significant risks faced by the Company
- ii. Providing adequate information in a timely manner to Board on the status of risks and controls
- iii. Participating biannually in a risk review and reporting the outcomes to the Board
- iv. Implementing policies on risk management and internal control
- v. Reviewing the various manufacturing units and departmental red risks
- vi. Participating in the annual review of effectiveness of the system of internal control and risk management by internal audit

## **Heads of Units & Functional Heads**

Heads of the Units and functional heads of the various departments supported by their management groups are responsible for the management and monitoring of risk within their areas of responsibility.

## **Risk Management Committee**

The risk owner has responsibility for monitoring and managing their individual risk. The strategic risk register clearly documents the risk owner along with other relevant information data on the risk and therefore each owner is required to be familiar with the risk register. The risk owner is also responsible for the implementation of the measures taken in respect of each risk.

The Risk Management Committee constituted by the Board of Directors of the Company shall comprise of:

<b>Sr.No.</b>	<b>Particulars</b>	<b>Designation</b>
1.	Shri Tribhuvanprasad Kabra	Managing Director
2.	Shri Mahendrakumar Kabra	Director
3.	Shri Satyanarayan Loya	Director
4.	Shri Hemant Kabra	Chief Financial Officer
5.	Shri Iqbal Singh	Assistant General Manager- Finance

### **Chief Financial Officer**

The Chief Financial Officer and the functional heads, as the risk process owner ensures that risks are managed effectively at all levels and that risks are reported at an appropriate level.

## **APPENDIX III**

### **1. Introduction**

The Risk Management Committee is a key tool in the management of the risk and opportunities associated with achieving the Company's Strategic Plan. Strategic risk includes operational, financial and reputational risks. The strategy is based upon assessment and prevention rather than reaction and remedy.

Whilst overall corporate governance responsibility rests with the Board of Directors, risk management will be co-ordinated and monitored by the planning and management executive. The responsibility for implementation of the Risk Management Strategy is shared by all staff across the Company.

### **2. Objective**

The objective of the Risk Management Committee is to establish formal mechanisms that will facilitate the timely identification and management of risk and hence ensure the delivery of the strategic plan objectives.

### **3. Implementation**

Implementation of the Risk Management Strategy has four strands.

- i. Embedding risk assessment in the strategic decision making process
- ii. Internal review of risk and how it is managed
- iii. External assessment of the effectiveness of the strategy
- iv. Provision of resources to implement the strategy including staff training

#### **3.i. Embedding risk management in the strategic decision making process**

The assessment of risk should be an integral part of the planning and review process. All strategic proposals should include a risk assessment both of doing and of not doing the proposed activity.

Strategic decisions are taken by the Board of Directors in setting the Company strategy.

Where a strategic decision is taken or activity undertaken then the major risks associated with that decision or activity should be recorded in the minutes of the meeting of the Risk Management Committee (RMC).

The minutes of the RMC meetings is a summary of the major risks associated with all Ram Ratna Group activities and decisions at the date of its latest formal review.

Decisions involving significant risk should be reported to Board of Directors and, where appropriate, Board's approval should be sought.

### **3.ii. Internal review of risk and the risk strategy**

The minutes of the RMC minutes will be formally reviewed by the Board at their meetings where the same shall be tabled.

The Audit Committee shall also have complete access to the minutes of the RMC and they in turn shall report to the Board of their observations.

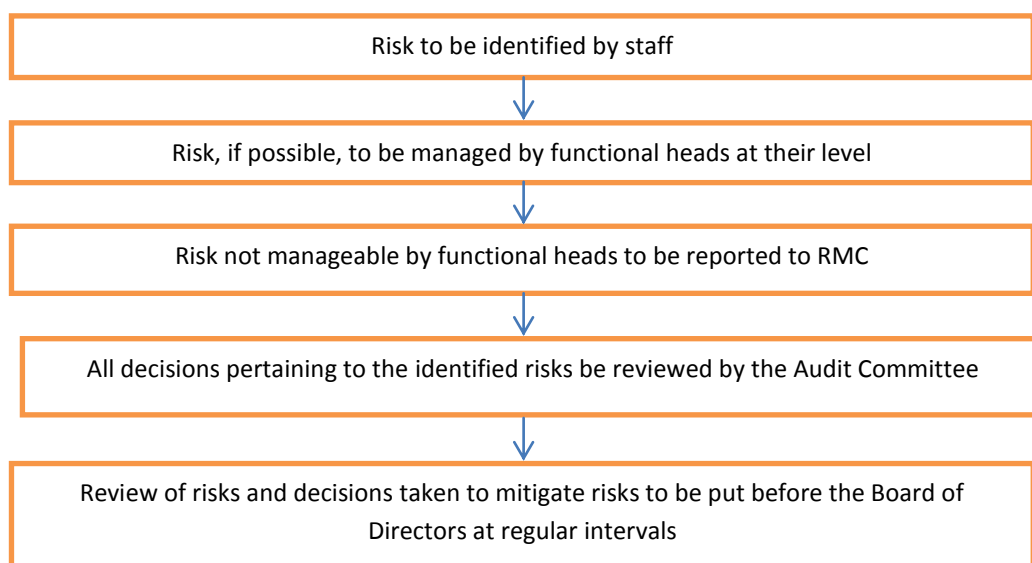
### **3.iii. External assessment of the effectiveness of the strategy**

An integral part of this Risk Management Strategy is that there should be a formal evaluation of its effectiveness. This evaluation will be undertaken annually by the Audit Committee and will report to the Board.

The effectiveness review will determine whether risks are being properly identified, managed and reported at appropriate levels. The review will include a report on the risks identified within the minutes of the RMC meetings.

### **3.iv Ram Ratna Group's Risk Management Strategy Governance Process**

The process can be summarised as follows:



Separately, the Internal Auditor is required to report in their report its comments on the decisions taken by the RMC.