

# **RISK MANAGEMENT POLICY**

***PODDAR PIGMENTS LIMITED (THE COMPANY)***

## **Introduction**

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

Risk management is the process of attempting to identify and then manage threats that could severely impact or bring down an 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.

Paragraph (C) of sub-clause IV of Clause 49 of the Listing Agreement states:

*“The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework”*

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

### ***(II) (C) Risk Management of Corporate Governance voluntary guidelines, 2009***

- 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 a 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 listed Companies to prepare a comprehensive framework of risk management for the assessment of risks and to determine the responses to these risks so as to minimise their adverse impact on the organisation.

### **Risk Strategy:**

The Company recognizes that risk is an integral and unavoidable component of business and is committed to managing risk in a proactive and effective manner. It believes that while Risk cannot be eliminated, 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 robust internal controls
- Avoided, by not entering risky businesses
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits
- Shared, by following a middle path between retaining and transferring risk

The Company is a manufacturer of Masterbatches and is committed to excellence in quality and services.

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: regulatory, competition, business, technology obsolescence, investments, retention of talent and expansion of facilities. Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk etc.

To manage risk efficiently, the company would need to identify the risks that it faces in trying to achieve its objectives. Once these risks are identified, the management would need to evaluate these risks to see which of them will have critical impact on the company 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**

A risk management framework is built around the objectives of a company, so as to identify all the potential events that may hinder their achievement. Enterprise risk management ensures that the management has in place, a process to set objectives and that the chosen objectives support and align with its mission and are consistent with its risk appetite.

The Objectives of the Company can be classified as follows:

#### **Strategic:**

- Organizational growth.
- Comprehensive range of products.
- Sustenance and growth of strong relationships with customers and suppliers.
- Expanding the presence in existing markets and penetrating new geographic markets.
- Continuing to enhance industry expertise.
- Enhance 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, risk is a result of activities or 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 aimed at reducing the fall-out of various risk exposures.

The Company adopts a systematic approach to mitigate the risks associated with the accomplishment of its objectives, operations, revenues and regulations. The Company has constituted an Audit Committee, which submits a periodic report to the Board on the measures taken to mitigate risk in the organization. The Company considers the above activities at all levels of the organization, viz., enterprise level, division level and business Unit level. All these components are interrelated and drive enterprise wide risk management with a focus on three key elements:

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

### **Risk Assessment**

Risk Assessment is a systematic process of evaluating the potential risks that may be involved in a projected activity or undertaking. To meet the stated objectives, effective strategies for leveraging opportunities are developed and as a part of this, key risks are identified and plans for managing the same are laid out.

### **Risk Mitigation & Management and Risk Monitoring**

Our risk management strategy is to identify the risks we are exposed to, evaluate and measure those risks, decide on the optimum way of managing those risks, regular monitoring and reporting to management. In the management of risk the probability of risk is estimated through available data and information and appropriate risk treatments worked out in the following areas:

#### **1. Economic Environment and Market conditions**

Economic slowdowns or factors that affect the economic health of our customers' countries, including India, may increase risk to our revenue growth.

Strategically, we seek to continuously expand our customer base to maximise 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 the quality of our products and upgrading their performance parameters are aimed at deriving optimum value from our existing customer base and at 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, a significant portion of our foreign business transactions (including purchase of raw materials, as well as sales of finished goods to foreign customers) are in USD/Euro and other currencies, thereby increasing our exposure to foreign currency rates fluctuations and currency movements in global foreign exchange markets.

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. We manage this risk on through the hedging of imports with exports realization and also limited hedging of specific transactions by forward cover with our Bankers. 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 the 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. Political Environment**

The Company has wide exposure in exports. Any adverse changes in the political environment in the country where the Company exports would have an impact in growth strategies of the company.

Risks that are likely to emanate are managed through constant engagement with the current Government, reviewing and monitoring the country's industrial, labour and related policies and involvement in representative industry-bodies.

## **4. Competition**

The market for Masterbatches is becoming increasingly competitive and we expect this to intensify with the establishment of new capacities, expansion of existing capacities and consolidation of operations across the sector. Competitors with cheaper variants of masterbatches can actually capture the market with lower price schemes. Further, plagiarism in product design etc. can also dent the Company's bottom line.

The technical know-how within the company and the emphasis on high quality will 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.

## **5. Revenue Concentration**

High concentration in any single business segment exposes the company to the risks inherent in that segment. We have adopted prudent norms based on which we limit our dependence on any specific geographical area, industry, or customer. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks. Concentration of revenue from any particular segment of

industry is sought to be minimised over the long term by careful extension into other activities, particularly in areas the company has some basic advantage such as availability of technical or manpower resources.

## **6. Inflation and Cost Structure**

The cost of revenues consists primarily of raw materials including Dyes/Pigments, Virgin Polymer, TiO<sub>2</sub>, Carbon Black etc. The cost of revenues has a certain degree of inflationary uncertainty. To de-risk, the Company has established specific policies for procurement of long term deliveries of strategic raw materials.

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.

## **7. Technological Obsolescence**

The Company's philosophy is to Modernise, Indigenize, Never Compromise on Quality, and to be proactive in adaptation of new 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 most advanced technology. Established contacts with leaders in technology, particularly in the areas of the company's operations, bolster our ability to access 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 its competitors. The company's policies also include a favourable dispensation for the replacement of machinery and equipment on a consistent basis to take advantage of such technological movements

## **8. 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 create 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 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.

#### **Risk of Corporate accounting fraud:**

Accounting fraud or corporate accounting fraud are business scandals arising out of the misuse or misdirection of funds, overstating revenues, understating expenses etc.

The Company mitigates this risk by

- Understanding the applicable laws and regulations
- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives
- Instituting Whistleblower mechanisms
- Deploying a strategy and process for implementing the new controls
- Adhering to internal control practices that prevent collusion and concentration of authority
- Employing mechanisms for multiple authorisation of key transactions with cross checks
- Scrutiny of management information data to pinpoint dissimilarity of comparative figures and ratios
- Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and manuals and a host of other steps throughout the organisation and assign responsibility for leaving the overall effort to a Senior Managerial Personnel.

#### **9. Legal Risk**

Legal risk constitutes risk wherein the Company may be exposed to legal action.

The Company is governed by various laws and the Company has to do its business within four walls of law. We have an experienced team of professionals who evaluate the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments. The management encourages its employees to place full reliance on professional guidance and opinion and discuss the impact of all laws and regulations to ensure company's total compliance. Advice and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.

The Company has established a compliance management system and a copy of the Certificate of compliance with the applicable accounting standards, and No Dues & Legal Compliance signed by Shri B. K. Bohra, Shri A. M. Mehta and Shri Navin Jain, SMP of the Company was presented before the board at the board meeting..

## **10. Compliance with Local Laws**

The Company is subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of goods and technologies and multiple and possibly overlapping tax structures.

## **11. Quality and Project Management**

The company is a pioneer in the manufacture of Masterbatches and is committed to maximising customer satisfaction and to keep a clean and safe environment. For years, the Company has been engaged in the manufacture of Masterbatches for various industries. Our Commitment towards total quality management is to instill in each member of the company a drive towards the continual improvement in the quality of our products and services.

Our Company has been accredited with ISO 9001 : 2008 standard.

## **12. 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.

The Company has setup the bag filters to arrest the air pollution, Dust collectors are provided at all transfer points. Extensive plantation of trees around manufacturing plants is undertaken for the development of a green belt.

## **13. Human Resource Management**

The vision of the Company is to achieve organisational excellence through innovation.

Human Resource management adds value to the Company 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. We seek to provide an environment that rewards entrepreneurial initiative and performance.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcating in them a sense of belonging and commitment and also effectively training them in spheres other than their own specialisations. 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 his/her best and create an atmosphere that is conducive to risk management.

Compensation is subject to a 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, taking into account welfare measures for the employee and his family.



#### **14. Culture and Values.**

The Company has various offices located in different geographical locations and people belonging to different culture and values are employed in these offices. Managing risk consistently among multi-cultural workforce is very critical.

The company has implemented a written code of conduct and ethics for all employees. These policies are disseminated on the Company's website and affirmations have been obtained from all concerned to ensure compliance.

Our core values:

- Pursuit of Excellence
- Industrial Promotion
- Export Promotion
- Workers' Welfare
- Productivity
- Safety
- Industrial Relations
- Environment Improvement

These are guiding parameters for all organization-wide initiatives.

Over the years, the company has consistently followed the practice of adhering to certain cultures and values in internal and external management and every employee is made aware of such practices and the logic behind them. It is the company's belief that every employee is attuned to follow fair practices and uphold its fair name in every field they are involved.

Further, the Company's website, [www.poddarpigments.com](http://www.poddarpigments.com) provides an overview of the organization's direction, design, culture, processes, product range, policies and practices. This site is also accessible to the public, and is updated regularly.

#### **Risks specific to the Company and the mitigation measures adopted**

##### **1) 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.

##### **2) Business Operations Risks:**

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

- Organisation and management risks,
- Production, process and productivity risks,

- Business interruption risks,
- Profitability

**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 ensure business continuity in the absence of functional heads.
- Proper policies are followed in relation to the maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production.
- Effective steps are being taken to reduce the cost of production on a continuing basis taking into account various changing scenarios in the market.

3) **Liquidity Risks:**

- Financial solvency and liquidity risks
- Borrowing limits
- Cash management risks

**Risk Mitigation Measures:**

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual budgets are prepared and presented to the management for detailed discussions 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, monthly and annual cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and to 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 partly supported by LCs and steps are taken to protect us from impact of undue fluctuations in rates, etc.

4) **Credit Risks:**

- Risks in settlement of dues by dealers/customers
- Bad and doubtful debts

**Risk Mitigation Measures:**

- Systems are put in place for the assessment of creditworthiness of dealers/customers.
- Daily monitoring of overdues and appropriate recovery management and follow up.

5) **Logistics Risks:**

- Use of external transport sources.

**Risk Mitigation Measures:**

- In-house logistic mechanism is in place to take actions as the situation demands.
- Possibilities to optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.
- Dedicated logistics team to handle all requirements relating to movement of goods for domestic and overseas.

**6) Market Risks / Industry Risks:**

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

**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, 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 the 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 developments and advice on various aspects of de-bottlenecking procedures, in customer-plants etc.
- Proper inventory control systems have been put in place.

**7) Human Resource Risks:**

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

**Risk Mitigation Measures:**

- The Company has a proper recruitment policy to hire personnel at various levels in the organization.
- A proper appraisal system for the revision of compensation on a periodic basis has been developed and deployed.
- Employees are trained at regular intervals to upgrade their skills.
- Labour problems are obviated through 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.

8) **Disaster Risks:**

- Natural risks like Fire, Floods, Earthquakes, etc.

**Risk Mitigation Measures:**

- The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with a periodic review of adequacy, rates and risks covered.
- Fire extinguishers have been placed at fire sensitive locations.
- First aid training is given to watch and ward staff and safety personnel.

9) **System Risks:**

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

**Risk Mitigation Measures:**

- The 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 used in the systems to ensure reliability and legality.
- The Company ensures “Data Security”, by having access control/ restrictions.

10) **Legal Risks:**

**These risks relate to the following:**

- Contract Risks
- Judicial Risks
- Insurance Risks
- Frauds

**Risk Mitigation Measures:**

- The Legal department vets all legal and contractual documents with legal advice from Experts in respective field.
- Contracts are prepared with due study of contractual liabilities, deductions, penalties and interest conditions
- Insurance policies are reviewed periodically to avoid any later disputes at the time of settlement of claims.
- Timely payment of insurance premium and full coverage of properties of the Company under insurance are ensured
- Internal Audit and Internal control systems for proper control on the operations of the Company and to detect any frauds/misappropriation are in place and reviewed on regular basis.

11) **Foreign Exchange and Interest Rate Risk Management:**

**A. Exposures**

The Company has currency exposures for imports as well as exports.

**B. Risk Identification**

Foreign currency exposures are recognized from the time an import/export order/contract is signed.

All exposures are monitored on fortnightly basis for import liabilities and export receivables

**C. Risk Measurement**

Risk is measured from the quantum of net open position in a currency. The net open position is the difference between un-hedged receipts and un-hedged payments in each currency. Stop loss level means the predetermined level at which an un-hedged exposure could be hedged. The stop loss level is applied in relation to a benchmark for each currency which is reviewed/revised from time to time based on costing.

**D. Risk Control**

1. Risk limitation or reduction is the prime objective in framing the policy.
2. 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.

12) **Disclaimer Clause**

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. The management has limited expertise in risk assessment, risk mitigation and risk identification. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.