RISK MANAGEMENT POLICY

SHARDA MOTOR INDUSTRIES LIMITED

Regd. Off: D- 188, Okhla Industrial Area, Phase I, New Delhi -110020

CIN: L74899DL1986PLC023202

approved by the Board of Directors of the Company at its Meeting held on 23rd June, 2021

BACKGROUND

This document lays down the framework of Risk Management at Sharda Motor Industries Limited (hereinafter referred to as the 'Company') and defines the policy for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in any business operations of the Company and lays down the mitigation methods which are periodically reviewed and modified in a manner commensurate with the size and complexity of the business.

OBJECTIVE

The objective of the Risk Management Policy is to lay down procedures and guidelines to assess risk and have mitigation plans in place. It should also provide the Role Mapping for the authorities responsible. The Policy basically sets out the company's approach to risk and should detail the Risk Management process to the staff and concerned representatives.

The policy should ensure sustainable business growth as it gives the mechanism for dealing with the different types of risks that the business could encounter going forward. It gives a structured approach, following which would minimize the impact of the risks. The policy identifies the various risks that could impact the business and its operations and gives a strategy to avoid, reduce, transfer or accept the respective risk.

REGULATORY

Policy is framed as per the regulatory requirements of Section 134(3), Section 177(4), Schedule IV [Section 149(8)] of the Companies Act, 2013 and as per Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable provisions, if any (including any statutory modification / re-enactment(s) thereof for the time being in force).

RISK GOVERNANCE STRUCTURE

1. Risk Management Committee

The Committee is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes, and provides regular reports to the Board of Directors on the effectiveness of the risk management program in identifying and addressing material business risks

"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".

1.1 Role and Responsibilities of the Risk Management Committee:

- Review and approve the risk management policy and associated practices of the company.
- managing and monitoring the implementation of action plans developed to address material business risks within the Company and its business units, and regularly reviewing the progress of action plans;
- setting up internal processes and systems to control the implementation of action plans;
- regularly monitoring and evaluating the performance of management in managing risk;
- providing management and employees with the necessary tools and resources to identify and manage risks;
- regularly reviewing and updating the current list of material business risks;
- regularly reporting to the Board on the status of material business risks;
- review and monitor cyber security; and
- ensuring compliance with regulatory requirements and best practices with respect to risk management.

2. Risk Management Approach

Risk Management as a process shall enable the organization to identify, assess and treat risks. It is the responsibility of everyone in the organization viz. Board, Management Team and all SMIL personnel. Risk Management applies to all functions, verticals and operations within the organization.

The Company has always had a system-based approach to business risk management. Backed by strong internal control systems, the current risk management framework consists of the following elements:

- The Board vide. its reporting Key Managerial Personnel (KMP) / Senior Managerial Personnel (SMP) & Other Officials / Employees of the Company should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization shall be assessed, mitigated, monitored and reviewed on an ongoing basis.

- All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organisation's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk.

3. Risk Classification

Risks are broadly classified into the following:-

- **Strategic Risk -** risks from competing firms, social trends, capital availability and business mix

- **Business Risk -** risks specific to the industry (industry, market, technology advancements, etc), counterparty risks (risks to supplier, client, and other JV partners, their suppliers, clients and business), and risks from resources (sourcing decisions, capital expenditure utilization, etc)

- **Operations Risk -** risks such as Customer Satisfaction, product failure, integrity, and reputational risk.
- **Compliance Risk -** Risk of loss resulting from legal and regulatory factors
- **Societal Risk -** risks from environmental interactions of the Business (carbon emissions, water and energy depletion, hazardous waste disposal, etc), society (impact of projects on communities), and natural disasters
- **Risk from Regulatory Environment -** risks that arise from adverse developments in the regulatory scenario, and the political environment in all the countries involved in the functioning of the business
- **Asset Risk**- Risk of loss resulting from depreciation, under-utilisation or loss of control over physical assets of company
- **Competition Risk** – Risks pertaining to the external competitors of the company such as entry of new competitors, FDI etc
- **Compliance Risk** - Risk of loss resulting from legal and regulatory factors, such as strict privacy legislation, compliance laws, and intellectual property enforcement.
- **Contract Risk** – Risks pertaining to the contracts signed with client and sub-contractors.
- **Environmental Risk** – Risks having implications on the environment, weather, pollution or risks arising due to changes in environment
- **Expense Risk** – The risk of a change in value caused by the fact that the timing and/or the amount of expenses incurred differs from those expected, e.g. assumed for pricing basis.
- **Financial Risk** - All risks which have a financial implication such as adverse movements in foreign exchange rates, capital expenditure etc.
- **Foreign environment risk** - The risk arising due to exposure to foreign laws, regulation and socio-political environment.
- **Litigation Risk** - Risk of loss arising out of litigations against or litigation initiated by the company
- **Market Risk** – Risks pertaining to external market factors such as demand uncertainty, price volatility etc
- **People Risk** - Risks (like attrition) that are part of the personnel related processes of the company such as recruitment, skill sets and performance measurement
- **Process Risk/ Execution Risk** – The risk arising due to lack of adequate process or inadequate execution of defined processes/
- **Project Risk** – Risks which impacts the execution of any project resulting in time and cost overrun.
- **Regulatory/Political Risk** - The risk arising due to change in regulatory policy of the country

- **Reporting Risk** - Risk of inadequate internal or external reporting due to wrong financial as well as non-financial information in the reports
- **Goodwill Risk** – Risks having implications on the brand and reputation of the company.
- **Technology Risk** – Risks originating from usage and deployment of technology in the organisation in its operations and management such as product obsolescence because of technology gap.

4. RISK ASSESSMENT & EVALUATION

The Risk Assessment and Evaluation process can be considered to be qualitative or quantitative in nature. It should take into account two contributing factors – the probability of occurrence of the event and the impact of such an occurrence.

Risk assessment and evaluation also includes the categorization of each type of risk categorized into high risk, medium risk, and low risk based on the analysis done on these risks.

5. Risk Mitigation Strategy

There are four common strategies for treating risk. There is no single "best" response strategy, and each risk must be considered on its own merits. Some risks may require a combination of strategies and multiple responses, whereas others may need only one strategy with a single response.

- **Risk Avoidance/ Termination**: This involves doing things differently and thus removing the risk (i.e. divestments). This is particularly important in terms of project risk, market risk or customer risk but often wishful thinking in terms of the strategic risks.
- **Risk Reduction/ Mitigation:** Reduce or Treat the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk but to bring the risk to an acceptable level by taking action to control it in some way through either:
  - Containment actions (lessen the likelihood or consequences and applied before the risk materializes) or;
  - Contingent actions (put into action after the risk has happened, i.e. reducing the impact. Must be pre-planned)
- **Risk Acceptance/ Retention**: Accept and tolerate the risk. Risk Management doesn't necessarily mean risk reduction and there could be certain risks within the organization that it might be willing to accept and continue with its operational activities. The organization shall tolerate such risks that are considered to be acceptable, for example:
  - a risk that cannot be mitigated cost effectively;
  - a risk that opens up greater benefits than loss
  - unavoidable risks

It’s the role of SMP or KMP or such other designated Official(s) of the Company to decide to tolerate a risk, and when such a decision is taken, the rationale behind it shall be fully documented. In addition, the risk shall continue to be monitored and contingency plans shall be in place in the event of the risk occurring.

- **Risk Transfer:** Transfer some aspects of the risk to a third party. Examples of risk transfer include insurance and hedging. This option is particularly good for mitigating financial risks or risks to assets.

  a) The following aspects shall be considered for the transfer of identified risks to the transferring party:

  - Internal processes of the organization for managing and mitigating the identified risks.
  - Cost benefit of transferring the risk to the third party.

  b) Insurance can be used as one of the instrument for transferring risk.

6. Risk Reduction/ Mitigation Process:

If the risk treatment mechanism selected is risk mitigation or risk transfer for an identified risk than the next step shall be to review and revise existing controls to mitigate the risks falling beyond the risk appetite and also identify new and improved controls.

Identify controls

New control activities are designed in addition to existing controls post assessment of risk exposure at current level to ensure that the risks are within the accepted risk appetite. Control activities are categorized into Preventive or Detective on the basis of their nature and timing:

- Preventive controls – focus on preventing an error or irregularity.
- Detective controls – focus on identifying when an error or irregularity has occurred. It also focuses on recovering from, repairing the damage from, or minimizing the cost of an error or irregularity.

Evaluate Controls

The controls identified for each risk event shall be evaluated to assess their effectiveness in mitigating the risks falling beyond the risk appetite. Implement Controls It is the responsibility of the CRC to ensure that the risk mitigation plan for each function is in place and is reviewed regularly.

7. Risk Monitoring & Review

The Risk Management Committee is the key group which shall work on an ongoing basis within the risk management framework outlined in this policy to mitigate the risks to the organization’s business as it may evolve over time.

7.1 Risk Monitoring

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risks with their mitigation measures shall be updated on a regular basis.

The Officials (SMP/ KMP/ such other designated Officials) shall undertake the following process for Monitoring:

- Review and report the status of risks and treatment actions over the Mitigation
- Any new or changed risks shall be identified and escalated, if deemed necessary
- Identify the key risks to be put up in the Risk Management Committee meet.
- Monitor and Supervise the development and implementation of the Risk Management Policy and maintain enterprise-wide view of the key risks and their mitigation measures faced by the organization.

7.2 Risk Review

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified, assessed and appropriate controls are in place. Regular audits of policy and standards compliance shall be carried out and standards performance reviewed to identify opportunities for improvement. It shall be remembered that SMIL operates in dynamic environment. Changes in the organization and the environment in which it operates must be identified and appropriate modifications made to risk management practices. The monitoring process shall provide assurance that there are appropriate controls in place for the organization's risks.

The vertical/functional teams shall review progress on the actions agreed to mitigate the risk and make an assessment of the current level of risk including:

- Establishing whether actions have been completed or are on target for completion.
- Report the status of implementation of mitigation plans to the Corporate Risk Committee.

Any monitoring and review process shall also determine whether:

- The measures adopted resulted in what was intended.
- The procedures adopted and information gathered for undertaking the assessment was appropriate.
- The acceptability of each identified risk and their mitigation plan shall be assessed and risks shall then be ranked to identify key risks for the organization.
- Proposed actions to eliminate, reduce or manage each material risk shall be considered and agreed.
- Responsibilities for the mitigation measures for key risks management of each risk shall be assigned to appropriate department/regional heads.

Review of the Policy

The risk management policy shall be reviewed by the Committee as and when required based on changes in the business environment/ regulations/ standards/ best practices in the industry by an outside consultant/ organization.