

## **GOVIK INDUSTRIES PRIVATE LIMITED**

### **RISK MANAGEMENT POLICY**

#### **I. BACKGROUND**

This Policy on Risk Management (“**Policy**”) is framed by Govik Industries Private Limited (“**Company**”). Section 134(3) of the Companies Act, 2013 requires a statement to be included in the report of the board of directors (“**Board**”) of the Company, 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.

#### **II. PREAMBLE**

Many times organizations fail in achieving their objectives due to obstacles in various processes related to Operational, Technical, Materials, Marketing, Financial, Personnel and sometimes missing the opportunities at the right times. A focused approach in identifying the obstacles & managing them will help the Organizations to perform better.

Risk Management is a management tool to focus specially on such obstacles (risks) across the organization and to mitigate.

#### **III. DEFINITIONS**

##### **“Risk”**

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization’s business objectives. The exposure to the consequences of uncertainty constitutes a risk.

##### **“Risk Management”**

Risk management Process can be defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

##### **“Risk Register”**

A prioritized risk register highlighting the key risks for the unit where the level of risk found during the analysis process as high priority risk criteria with a total risk score of greater than or equal to 9 and/or the impact is rated as major or catastrophic.

##### **“Risk Database”**

The risks have been classified based on the business units / functions. Repository of all risks the Company faces, categorized as on a 4 scale matrix on the impact and likelihood ratings.

#### **IV. OBJECTIVE AND PURPOSE**

In line with the Company’s objective towards increasing stakeholder value, a risk management policy has been framed, which attempts to identify the key events / risks impacting the business objectives of the Company and attempts to develop risk policies and strategies to ensure timely evaluation, reporting and monitoring of key business risks.

## V. POLICY STATEMENT

The Company is committed to develop an integrated Risk Management Framework:

- ♣ To achieve the strategic objective while ensuring appropriate management of risks
- ♣ To ensure protection of stake holders value
- ♣ To provide clear & strong basis for informed decision making at all levels of the organization
- ♣ To strive towards strengthening the Risk Management System through continuous learning & improvement

Every employee of the Company is recognized as having a role in risk management for identification of risk to treatment and shall be invited & encouraged to participate in the process.

The Board will determine Key Risks, communicate the Policy, objectives, procedures & guidelines and to direct & monitor implementation, practice & performance throughout the Company.

The Board will review the Policy & procedures periodically.

## VI. SCOPE AND EXTENT OF APPLICATION

The Policy guidelines are devised in the context of the present business profile, future growth objectives and new business endeavours/ services that may be necessary to achieve the goals & the emerging global standards & best practices amongst the comparable organizations. This Policy covers all the events within the Company & events outside the Company which may have a bearing on the Company's business.

## VII. THE RISK MANAGEMENT FRAMEWORK

Risk management will protect and add value to the organization and its stakeholders through supporting the organization's objectives by improving decision making, planning and prioritization by comprehensive and structured understanding of business activity, volatility and project opportunity/threat.

It will provide a framework that enables future activity to take place in a consistent and controlled manner. The framework will help in creating an environment in which risk management is consistently practiced across the Company and where management can take informed decisions to reduce the possibility of surprises.

The components of risk management are defined by the Company's business model and strategies, organizational structure, culture, risk category and dedicated resources. An effective risk management framework requires consistent processes for assessment, mitigation, monitoring and communication of risk issues across the organization. Essential to this process is its alignment with corporate direction and objectives, specifically strategic planning and annual business planning processes. Risk management is a continuous and evolving process, which integrates with the culture of the Company.

An effective Risk Management Framework comprises of:

- ♣ **Risk management process; and**
- ♣ **Risk management organisation structure**

**Risk management Process** can be defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

**Risk Management Organization Structure:** The risk management process has to be supported by a risk management structure which primarily comprises of:

- Team structure of the Risk Management Function
- Roles and Responsibilities
- Risk management activity calendar

## **VIII. RISK MANAGEMENT PROCESS**

Effective risk management process requires continuous & consistent assessment, mitigation, monitoring and reporting of risk issues across the full breadth of the enterprise. Essential to this process is a well-defined methodology for determining corporate direction and objectives. Hence, an enterprise wide and comprehensive view will be taken of risk management to address risks inherent to strategy, operations, finance and compliance and their resulting organizational impact.

The risk management process adopted by the Company has been tailored to the business processes of the organization. Broadly categorizing, the process consists of the following stages/steps:

- ♣ Establishing the Context
- ♣ Risk Assessment (identification, analysis & evaluation)
- ♣ Risk Treatment (mitigation plan)
- ♣ Monitoring, review and reporting
- ♣ Communication and consultation

### **1. ESTABLISHING THE CONTEXT**

Articulate the objectives and define the external and internal parameters to be taken into account when managing risk, and set the scope and risk criteria for the remaining process.

#### **1.1. ESTABLISHING THE EXTERNAL CONTEXT**

Understanding the external context is important in order to ensure that the objectives and concerns of external stakeholders are considered when developing risk criteria. It is based on the organization-wide context, but with specific details of legal and regulatory requirements, stakeholder perceptions and other aspects of risks specific to the scope of the risk management process.

The external context can include, but is not limited to:

- ♣ The social and cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local;
- ♣ Key drivers and trends having impact on the objectives of the organization; and
- ♣ Relationships with, perceptions and values of external stakeholders.

#### **1.2. ESTABLISHING THE INTERNAL CONTEXT**

The risk management process should be aligned with the organization's culture, processes, structure and strategy. Internal context is anything within the organization that can influence the way risks will be managed.

It is necessary to understand the internal context. This can include, but is not limited to:

- ♣ Governance, organizational structure, roles and accountabilities;
- ♣ Policies, objectives, and the strategies that are in place to achieve them;

- ♣ Capabilities, understood in terms of resources and knowledge (e.g. capital, time, people, processes, systems and technologies);
- ♣ The relationships with and perceptions and values of internal stakeholders; the organization's culture;
- ♣ Information systems, information flows and decision making processes (both formal and informal);
- ♣ Standards, guidelines and models adopted by the organization.

## **2. RISK ASSESSMENT**

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.

### **2.1. RISK IDENTIFICATION**

Risks are about events that, when triggered, cause problems. Hence, risk identification can start with the source of problems, or with the problem itself. This stage involves identification of sources of risk, areas of impacts, events (including changes in circumstances) and their causes and their potential consequences. The aim of this step is to generate a comprehensive list of risks based on those events that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives. It is important to identify the risks associated with not pursuing an opportunity. Comprehensive identification is critical, because a risk that is not identified at this stage will not be included in further analysis.

### **2.2. RISK ANALYSIS**

Risk analysis involves:

- ♣ consideration of the causes and sources of risk
- ♣ the trigger events that would lead to the occurrence of the risks
- ♣ the positive and negative consequences of the risk
- ♣ the likelihood that those consequences can occur

Factors that affect consequences and likelihood should be identified. Risk is analysed by determining consequences and their likelihood, and other attributes of the risk. An event can have multiple consequences and can affect multiple objectives. Existing controls and their effectiveness and efficiency should also be taken into account.

### **2.3. RISK EVALUATION**

The purpose of risk evaluation is to assist in making decisions, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation. Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered. Based on this comparison, the need for treatment can be considered.

Decisions should take account of the wider context of the risk and include consideration of the tolerance of the risks borne by parties, other than the organization, that benefit from the risk. Decisions should be made in accordance with legal, regulatory and other requirements.

### 3. RISK TREATMENT

Risk treatment involves selecting one or more options for modifying risks, and implementing those options. Once implemented, treatments provide or modify the controls.

Risk treatment involves a cyclical process of:

- ♣ Assessing a risk treatment;
- ♣ Deciding whether residual risk levels are tolerable;
- ♣ If not tolerable, generating a new risk treatment; and
- ♣ Assessing the effectiveness of that treatment.

Based on the risk level, the Company should formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. Risk treatment options are not necessarily mutually exclusive or appropriate in all circumstances. Following framework shall be used for risk treatment:

**i. Avoidance (eliminate, withdraw from or not become involved)**

As the name suggests, risk avoidance implies not to start or continue with the activity that gives rise to the risk.

**ii. Reduction (optimize - mitigate)**

Risk reduction or "optimization" involves reducing the severity of the loss or the likelihood of the loss from occurring. Acknowledging that risks can be positive or negative, optimizing risks means finding a balance between negative risk and the benefit of the operation or activity; and between risk reduction and effort applied.

**iii. Sharing (transfer - outsource or insure)**

Sharing, with another party, the burden of loss or the benefit of gain, from a risk.

**iv. Retention (accept and budget)**

Involves accepting the loss, or benefit of gain, from a risk when it occurs. Risk retention is a viable strategy for risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible. This may also be acceptable if the chance of a very large loss is small or if the cost to insure for greater coverage amounts is so great it would hinder the goals of the organization too much.

### 4. MONITORING AND REVIEW

In order to ensure that risk management is effective and continues to support organizational performance, processes shall be established to:

- ♣ Measure risk management performance against the key risk indicators, which are periodically reviewed for appropriateness.
- ♣ Periodically measure progress against, and deviation from, the risk management plan.
- ♣ Periodically review whether the risk management framework, Policy and plan are still appropriate, given the organizations' external and internal context.
- ♣ Report on risk, progress with the risk management plan and how well the risk management policy is being followed.
- ♣ Periodically review the effectiveness of the risk management framework.
- ♣ Structured scientific and analytical tools may be used for this purpose.

## **5. COMMUNICATION AND CONSULTATION**

Communication and consultation with external and internal stakeholders should take place during all stages of the risk management process. Therefore, plans for communication and consultation should be developed at an early stage. These should address issues relating to the risk itself, its causes, its consequences (if known), and the measures being taken to treat it. Effective external and internal communication and consultation should take place to ensure that those accountable for implementing the risk management process and stakeholders understand the basis on which decisions are made, and the reasons why particular actions are required.

## **IX. RISK REPORTING**

Reporting is an integral part of any process and critical from a monitoring perspective. Results of risk assessment need to be reported to all relevant stake holders for review, inputs and monitoring.

## **X. ROLES AND RESPONSIBILITIES**

### **BOARD OF DIRECTORS**

The board of directors shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

The Board shall oversee the establishment and implementation of an adequate system of risk management across the Company. The Board shall comprehensively review the effectiveness of the Company's risk management system on an annual basis.

## **XI. BOARD APPROVAL**

The action plan and guidelines shall be approved by the Board before communication to the personnel for implementation.

The Board shall approve the Risk Management (including Risk Treatment) strategy, control structure and the Policy guidelines and delegate authority and accountability for risk management to the Company's executive team.

## **XII. REVIEW**

This Plan shall be reviewed by the Board of Directors at least once in two years.

This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.

This Policy may be amended or substituted by the Board as and when required or whenever there are any statutory changes necessitating the change in the Policy. However, no such amendment or modification will be binding on the Directors and employees unless the same is communicated in the manner described as above.

**XIII. INTERPRETATION**

In any circumstance where the provisions of this Policy differ from any existing or newly enacted law, rule, regulation or standard governing the Company, the relevant law, rule, regulation or standard will take precedence over this Policy until this Policy is changed to conform to the said law, rule, regulation or standard.

**XIV. DISCLOSURE**

The Policy, as amended from time to time, will be disclosed on the Company's website.