POLICY ON RISK MANAGEMENT

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FLEXITUFF INTERNATIONAL LIMITED

RISK MANAGEMENT POLICY

INRODUCTION

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 systematically identifying and quantifying the various threats that can severely affect or bring down the organization, and then taking appropriate measures to address them effectively and efficiently to minimise their impact on the organisation.

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

"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

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

Risk Strategy:

Flexituff 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 engaged in the business of manufacturing of FIBC, Geo-Textile Fabric and Ground Cover, Reverse Printed BOPP Woven Bags, Special PP Bags including Leno Bags and polymer compounding.

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.

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.

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.

In the risk management framework, we consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level and Subsidiary level. 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 analyzed, 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. **Market Risk**

   Our customers are the prime source of revenue. 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 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 Company does not dependent on a single market and is present both in overseas as well as domestic market. Our products are exported to 30 different countries and in the domestic market we supply our products on PAN India basis.

   Company has received the Top Exporter Award from the PLEXCOUNCIL, Ministry of Commerce.

   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.

2. **Competition**

   The markets for our industry are rapidly evolving and growing competitive and we expect that competition may continue to intensify due to establishment of new capacities, expansion of existing capacities and consolidation of operations across the sector.

   We, however believe that we are strongly positioned in our market commanding a premium for our product. However, with the installation of additional capacity in a northern area with locational and tax advantages, our marketing strategies are being evolved to cover a wider marketing area.

   It is also believe that the expertise of the company in the manufacture of most complicated products and technical know-how within the company enhanced through the in-house research & development, emphasis on high quality will also substantially minimise the impact of market fluctuations compared to other players.

3. **Revenue Concentration/ Product Portfolio**

   High concentration in any single product within thesegment exposes the company to

the risks inherent in that segment. We have adopted prudent norms based on which we monitor and prevent undesirable concentration in a geography, industry, or customer.

We have increased our product portfolio to cater to the needs of wide range of customers like adding Reverse Printed BOPP Woven Bags, Leno Bags for Agri-products packing, Woven Geo- Textile Bags and Fabric and dripper used for irrigation.

4. Inflation and cost structure

The cost of revenues consists primarily of raw materials and to de-risk, the Company has developed system of pricing the product linked to the costs relating to raw material and its conversion.

5. Technological obsolescence

FIL'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.

The company focuses on improving existing technologies and product engineering innovation through continuous expenditure on R&D, so that the research and development opens new avenues for the Company along with new products and cost efficient processes.

The company's policies also include a favourable dispensation for replacement of Machinery and Equipment on a constant basis to adopt latest technological movements and procure highly advanced machine for its products and to meet the requirements of globally competitive market.

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.

We are committed to maintaining high standards of corporate governance and public disclosure abreast of the latest knowledge and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.8. 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 transactions with other countries 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. Board has approved foreign currency hedging policy The objective of the 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.

7. Risk of Corporate accounting fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of Misusing or misdirecting 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
- Scrutinising 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

8. Geographical Risk

We are present at 3 different locations in India and have 4 separate completely integrated facilities thereby mitigating the risk of any calamity, catastrophe at any single location.

Our manufacturing units at Pithampur (SEZ) and Kashipur enjoy various fiscal advantages due to their location.SEZ enjoys duty-free import and export and other tax reliefs. Similarly, Kashipur enjoys 10 years tax holiday for excise duty, concessional central sales tax and income tax benefits for 10years under section 80 IC of Income Tax Act, 1961.

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 continue the work without any interruption in case of non-availability of functional heads.
- Proper policies are followed in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Effective steps are being taken to reduce cost of production on a continuing basis taking 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 Budget and Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion 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 and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and 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 supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

4) Credit Risks:

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.

5) Logistics Risks:

- Use of outside transport sources.

Risk Mitigation Measures:

- Exploring possibility of an in-house logistic mechanism if the situation demands.
- Possibilitiesto optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.
- Company has a dedicated transport group to handle all requirements relating to movement of goods, domestic and imported, as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects.

6) Market Risks/ Industry Risks:

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

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, but 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 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 inputs and advice on various aspects of de-bottlenecking procedures, enhancement of capacity utilisation 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:

- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
- Employees are trained at regular intervals to upgrade their skills.
- Labour problems are obviated by 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 periodical review of adequacy, rates and risks covered under professional advice.
- Fire extinguishers have been placed at fire sensitive locations.
- First aid training is given to watch and ward staff and safety personnel.
- Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.

9) System Risks:

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

Risk Mitigation Measures:

- EDP 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 being used in the systems.
- The Company ensures "Data Security", by having access control/ restrictions.

10) Legal Risks:

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.

- The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.

- Contracts are finalized as per the advice from legal professionals and advocates.

- Insurance policies are audited to avoid any later disputes.

- Timely payment of insurance and full coverage of properties of the Company under insurance.

- Internal control systems for proper control on the operations of the Company and to detect any frauds.

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.