

## **RISK MANAGEMENT POLICY**

This report encompasses policies and procedures relating to the risk management of the Company. The risks detailed herein are not exhaustive and are for information purposes only. This report may contain forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements.

To meet the objectives of the Company, it is imperative to make effective strategies for exploiting opportunities and as a part of this, the Company has identified key risks and developed plans for managing the same.

The respective functional managers are responsible for identifying and assessing risks within their area of responsibility; implementing agreed actions to treat such risks; and for reporting to the Board any event or circumstance that may result in new risks.

### **RISKS AND CONCERNS:**

#### **1. Raw Material Risk:**

Delay in availability and also non-availability of good quality Steel Sheets from the suppliers could negate the qualitative and quantitative production of the various hand tools products and leaf springs products of the Company.

##### **➤ Risk Mitigation:**

Steel Sheets form a major raw material of the Company for both; Hand Tools Segment and Leaf Springs Segment. The Company enters into a long term supply contract with its suppliers. Few suppliers of the Company are situated in the same city where the production unit of the Company is situated, therefore making the raw material available at the right time and at economical cost becomes easier.

#### **2. Quality Risk:**

Timely supplies and highest quality parameters are a must for the business in which the Company is operating and any negligence in regard to the same could lead to severe consumer attrition.

##### **➤ Risk Mitigation:**

The Company ensures the conformance to the highest quality standards and comprehensive quality checks, resulting in superior products. The quality of the Company's products has not only led to better acceptance in the fiercely competitive markets; but also has resulted in high

repeat business on account of increased customer loyalty. As the hand tools segment products of the Company are being exported to western countries like United States of America, it becomes imperative for the Company to maintain the highest quality standards. Increased exports turnover of the Company is a clear acknowledgement that the international quality standards are being met.

### **3. Competition Risk:**

The hand tools as well as leaf springs industry are completely market driven, as there is no or minimal intervention by any government authority in these industries. This gives open access to other private players with cheaper variants of products to enter the market, which may disturb the Company's existing business.

#### **➤ Risk Mitigation:**

The Company believes that in the long run, quality of the product is the sole consideration for the consumers and has therefore never compromised on the same. The Company has strong focus on the quality of the product, which enables it to have an advantage in serving its long standing customers.

### **4. Foreign Exchange Risk:**

The Company is exposed to foreign exchange risk on account of its export of hand tools products to its customers outside India.

#### **➤ Risk Mitigation:**

The Company hedges its foreign exchange exposure by entering into forward foreign currency covers from time to time.

### **5. Realisations Risk:**

Any decline in the realisations would directly affect the Company's performance.

#### **➤ Risk Mitigation:**

Though the credit period in hand tools segment as well as leaf springs segments is generally of longer duration, most of the exposures are with large corporate houses and are therefore secured considering the standing of these organisations. The credit period with respect to small size and mid size players is decided based up his credit worthiness and his market standing and is strictly monitored by the Company.

### **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

Exchange listing regulations have been rapidly evolving. These new or changed laws, regulations and standards may lack specificity at times and are subject to varying interpretations. 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.

➤ **Risk Mitigation:**

The Company is committed to maintaining high standards of corporate governance and public disclosure and its efforts to comply with evolving laws, regulations and standards in this regard would further help address these issues.

The Company's preparation of financial statements in conformity with the Accounting Standards issued by ICAI, requires it to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements and the reported amounts of revenue and expenses during the reporting period. The Company's 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.

**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.

➤ **Risk Mitigation:**

The Company mitigates this risk by -

- Understanding the applicable laws and regulations;
- Adhering to internal control practices that prevent collusion and concentration of authority;
- Employing mechanisms for multiple authorisations 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 and a host of other steps throughout the organisation and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

## **8. Environmental Risk:**

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.

### **➤ Risk Mitigation:**

The Company mitigates this risk by adequately treating all the effluents generated from its manufacturing plants before disposing them off suitably in line with the requirements under the Anti-Pollution Laws.

## **9. Business Operations Risk:**

These risks relate broadly to the Company's organisation and management, namely; Organisation and management risks, production process and productivity risks, business interruption risks, profitability risk.

### **➤ Risk Mitigation:**

- 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 procedures 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.

## **10. Liquidity Risk:**

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

### **➤ Risk Mitigation:**

- Proper financial planning is put in place with detailed Annual 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.
- Monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.

### **11. Logistics Risk:**

Use of outside transport sources.

#### **➤ Risk Mitigation:**

- Possibilities to optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.
- Company has a dedicated internal division to handle all requirements relating to movement of goods, including capital equipment, domestic and imported, as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects.

### **12. Human Resource Risk:**

- Labour turnover risks, involving replacement risks, training risks, skill risks, etc.
- Unrest risks due to Strikes and Lockouts.

#### **➤ Risk Mitigation:**

- Proper recruitment system for recruitment of personnel at various levels in the organization is adopted.
- 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 from time to time.
- Employees are encouraged to make suggestions and discuss any problems with their Superiors.

### **13. Disaster Risk:**

Natural Risks like Fire, Floods, Earthquakes, etc.

#### **➤ Risk Mitigation:**

- 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.

#### **14. System Risks:**

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

#### **➤ Risk Mitigation:**

- ERP based system named 'Excepta' is being used for accounting and inventory control in the organization.
- Information and Technology Department of the Company 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.

#### **15. Legal Risk:**

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Data integrity risks
- Frauds
- Judicial Risks
- Insurance Risks

➤ **Risk Mitigation:**

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 scrutinized to avoid any later disputes.
- Timely payment of insurance premium and full coverage of properties of the Company under insurance.

**RISK STRATEGY AND MANAGEMENT SYSTEM:**

The Company 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 completely 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 Audit Committee of the Board reviews internal audit findings and provides strategic guidance on internal controls, monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.

The combination of policies and processes as outlined above adequately addresses the various risks associated with the Company's businesses.

**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.