

RISK MANAGEMENT POLICY

Clause 49 of Listing Agreement stipulates a listed company to lay down procedures about the Risk Assessment and Risk Minimization policy for the Company.

- 1) The Board of Directors of the Company shall periodically review the risk management policy of the Company so that management controls the risk through properly defined network.
- 2) Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Managing Director.
- 3) The Company through its Board of Directors shall constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit. The majority of the committee shall consists of members of the Board of Directors. Senior Executives of the Company may be members of such committee. But the Chairman of the Committee shall be Member of the Board of Directors.

RISKS AND CONCERNS

1) Raw Material Risk

Raw cotton, an agricultural product, is the key raw material used for the manufacture of cotton yarn, constitutes a major part of the cost. Almost 65% of area under cultivation is rain-fed and hence is dependent on vagaries of monsoon. Adequate availability of raw cotton at right prices is crucial for the company. Any disruption in the supply and / or violent changes in the cost structure would affect the profitability of the company.

Risk Mitigation measures

- a) The Company has its own Cotton procurement department, functioning under the overall direction of the Managing Director, having 4 decades of expertise in procuring quality cotton with assured supplies at competitive prices.
- b) The Company procures raw cotton from both domestic and international markets, thereby quality with assured supplies at competitive prices is being ensured.

- c) The company has also tied up procurement of raw cotton through sustained and dependent pre qualified sources to ensure availability of quality cotton with assured supplies, at competitive prices.
- d) The Company has in place various Management Information System (MIS), which enables management to take proper decisions, in time, which minimizes the risk

2) Foreign Exchange Exposure Risk

- Volatility in foreign currency exchange vis-a-vis Indian rupee, since
- A sizable production of cotton yarn is exported.
- Substantial volume of raw cotton is being imported

Risk Mitigation Measures:

- a) The Company monitors foreign currency exposures daily and uses financial instruments such as foreign exchange forward contracts to mitigate the risk of exchange rate fluctuations.
- b) The Company has been taking services of reputed foreign exchange advisor viz. (i) M/s Mecklei Financial Services Limited
- c) Dollar/Rupee moving in both directions, the Company has been managing forex bookings against exports and imports independently, taking advantage of two way movements, wherever possible. The Company will be monitoring the benchmark rates arrived at, based on the foreign currency rates prevailing on the date of placing / accepting an order from the date of commitment.
- d) The Company has in place various Management Information Systems, which enable the management to take decisions of exposures relating to exports, imports, foreign currency loans etc.
- e) The Company continues to strengthen these systems to minimize the risk involved due to adverse movement of exchange rates.

3) Asset Coverage risk (inventory/ fixed assets)

Risk Mitigation Measures:

- a) The company has taken proper insurance coverage for entire assets i.e non current assets and current assets
- b) The Company take advise from reputed Insurance Consultants for periodical review of adequacy and to ensure proper coverage of risk and the market linked premium to the insurance companies

c) Timely renewal of all types of insurance policies to ensure full coverage of properties of the company under insurance.

d) Insurance policies are audited to ensure that there is timely coverage in place.

4) Disaster Risks:

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

Risk Mitigation Measures:

a) The properties of the company are insured against natural risks, like fire, flood, and earthquakes, with periodical review of adequacy, rates and risks covered under professional advice.

b) Fire hydrant / extinguishers, Fire alarm sensors, LPG gas sensors have been installed at factory premises, with extension to all critical areas.

c) First aid and safety training / drills is given to watch and ward staff, workmen and the supervisors, periodically.

d) Safety audit is being periodically conducted through competent personnel like Retired Director (Factories & Boilers).

e) Insurance Company, periodically send their representatives to carry out inspection so as to ensure that the insurance coverage is in confirmative to their requirements.

f) Internal system is in place to meet any emergency situation.

5) Credit Risks:

- Risks in settlement of dues by customers

- Provision for bad and doubtful debts

Risk Mitigation Measures:

a) Systems put in place for assessment of credit worthiness of customers.

b) Provision for bad and doubtful debts made to arrive at correct financial position of the Company.

c) Appropriate recovery management and follow up.

d) The Company has in place various Management Information System (MIS), which enable management to take proper decisions, in time.

e) Coverage of ECGC – all exports are by Letter of Credit (LC). Wherever LCs is not opened, ECGC has been covered so as to ensure payment.

6) Fraud Risks

Accounting frauds, Cyber attacks, etc.

Risk Mitigation Measures:

- a) Understanding the applicable laws and regulations
- b) Conducting Risk assessments
- c) Enforcing and monitoring code of conduct for key executives
- d) Instituting whistle blower mechanism
- e) Deploying a strategy and process for implementing the new controls
- f) Adhering to internal control practices that prevent collusion and concentration of authority
- g) Employing mechanisms for multiple authorization of key transactions with cross checks
- h) Scrutinizing of management information data to pinpoint dissimilarity of comparative figures and ratios
- i) Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor known adherence.
- j) Insurance cover for cash transactions / withdrawals
- k) EDP Department maintains repairs and upgrades the systems on a continuous basis
- l) Password protection is provided at different levels to ensure data integrity
- m) Licensed software is being used in the systems
- n) The Company ensures “data security” by having access control / restrictions

7) Manpower Risks

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

Risk Mitigation Measures:

- a) The Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- b) Employees are trained at regular intervals to upgrade their skills.
- c) Labour problems are resolved by negotiations and conciliation.
- d) Long term agreement with workmen for wages, work load, bonus, etc.
- e) Activities relating to the Welfare of employees are undertaken.
- f) Employees are encouraged to make suggestions and discuss any problems with their Superiors.

8) Overleveraging Risks

- On account of high debts
- High payment of Interest
- Return of Assets (ROA) is lower than interest payment

Risk Mitigation measures

- a) The Company has in place various Management Information Systems which enable the management to coordinate multiple risk functions and to improve leverage across multiple risk functions thereby expanding coverage, reduce costs and enhance value to the business.
- b) Non performing and non profitable assets shall be reduced so that cost or loss can be lowered which can improve performance.

9) Risks on availability on Power and cost

- Non availability of sufficient power
- Ever rising cost of power
- Severe power cuts and frequent power interruptions

Risk Mitigation measures

- a) The Company has own wind mill power generations, which will minimize the dependence to State Electricity Boards for availability of power
- b) The Company is also in tie up with other power generating plants to take care the availability of power
- c) State Electricity Boards has permitted the Company to install extra high tension connections which will avoid power interruptions and minimize the power cost.

10) Review and amendment of the Risk Management Policy

- Risk Management Committee of the Board of Directors shall periodically review the existence and functioning of the Risk Management Policy and recommend suitable suggestions to the Board.
- The Board of Directors shall amend this policy in whole or in part, at any time consistent with requirement with applicable laws, rules and regulations.
