



RISK MANAGEMENT POLICY



KLJ RESOURCES LIMITED
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CIN: L67120WB1986PLC041487



BACKGROUND

This document lays down the framework of Risk Management at KLJ Resources Limited (hereinafter referred to as the 'Company' or 'KRL') 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 provides guidelines to define, measure, report, control and mitigate the identified risks.

OBJECTIVE

The objective of Risk Management at KLJ Resources Limited is to create and protect value of all the stakeholders by minimizing threats or losses, identifying and maximizing opportunities and to promote a pro-active approach in reporting, evaluating, and resolving risks associated with the Company's businesses and various operations.

STRATEGIC OBJECTIVES

- Providing a framework that enables future activities to take place in a consistent and controlled manner.
- Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats.
- Contributing towards more efficient use/ allocation of the resources within the organization.
- Protecting and enhancing assets and company's image.
- Reducing volatility in various areas of the business.
- Developing and supporting people and knowledge base of the organization.
- Optimizing operational efficiency.

REGULATORY FRAMEWORK

Risk Management Policy is framed as per the following regulatory requirements:

(a) COMPANIES ACT, 2013

1. Section 134(3)(n):

There shall be attached to financial statements laid before a company in general meeting, a report



by its Board of Directors, which shall include a statement 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.

2. Section 177(4) :

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, *inter alia*, include evaluation of internal financial controls and risk management systems.

3. SCHEDULE IV

[Section 149(8)]

Code for Independent Directors

Role and functions:

The independent directors shall:

- (1) Help in bringing an independent judgement to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;
- (2) Satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

(b) SEBI Regulations

The board should fulfill certain key functions, including:

- a. Reviewing and guiding corporate strategy, major plans of action, **risk policy**, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance and overseeing major capital expenditures, acquisitions and divestment.



- b. Ensuring the integrity of the listed entity's accounting and financial reporting systems including the independent audit and that the appropriate systems of control are in place, in particular, systems for **risk management**, financial and operational control and compliance with the law and relevant standards.

DEFINITIONS

"Risk Management Committee" means the Committee which shall have minimum three members with majority of them being members of the board of directors, including at least one Independent director. The Chairperson of the Committee shall be a member of the Board of Directors and Senior executives may be members of the Committee.

The Committee may be re-constituted in case of a casual vacancy in the committee or otherwise in accordance with the Directions of the Board and as approved by the Board of Directors as and when required. Sh. Ajai Kumar Gupta, Company Secretary of the Company shall act as Secretary to the Committee.

"Board of Directors" or "Board" in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013)

"Policy" means Risk Management Policy.

RISK MANAGEMENT

A. The Board shall be responsible for framing, implementing and monitoring the risk Management plan for the company & shall provide directions to the Committee for devising Risk Assessment and Risk Management procedures.

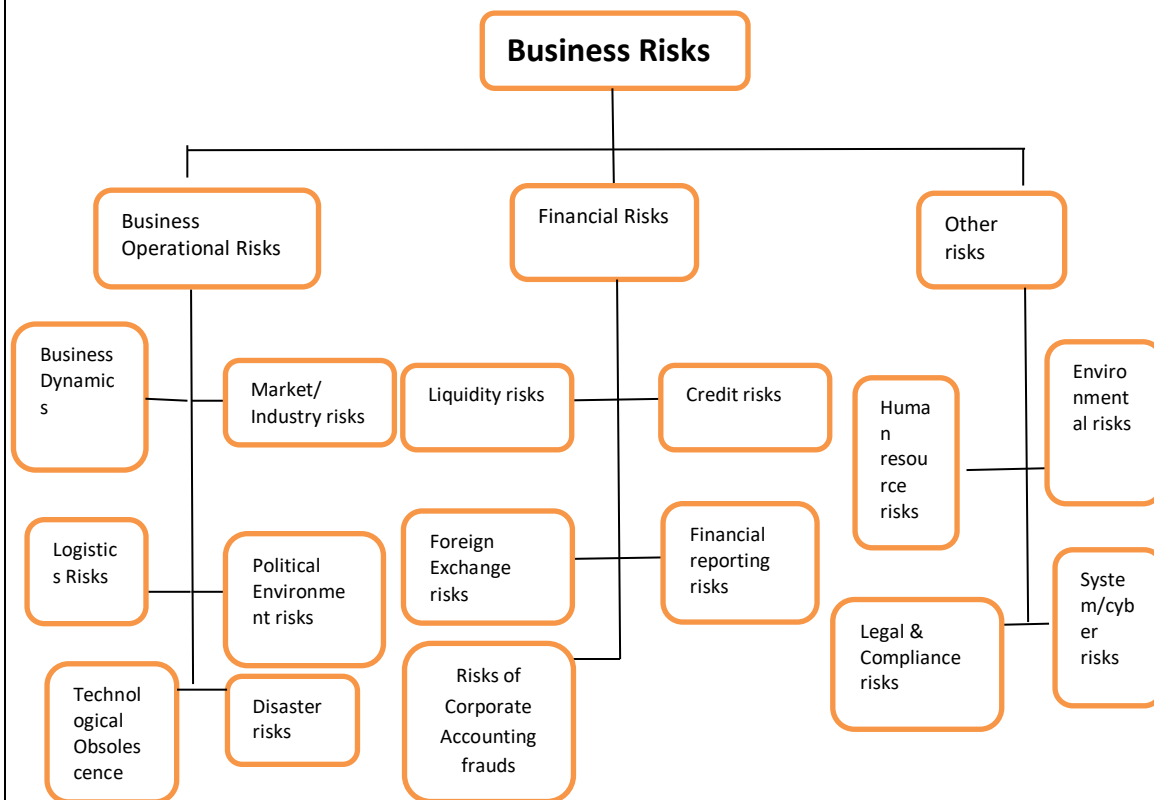
B. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.

KLJ Resources Limited being a listed company is required to adhere to the regulations made both by the Companies Act, 2013 and SEBI Regulations. Where any stipulation is common between the regulations, more stringent of the two shall be complied with.



RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED:

The Company has divided the risks into three broad categories, namely:-



(I) BUSINESS OPERATIONAL RISKS

1) **Business dynamics:** These include:-

- Organization and management risks
- Production, process and productivity risks
- Business interruption risks consisting internal and external factors

Risk mitigation measures:

- The Company functions under a well-defined organization structure with focus on role clarity.



- Proper systems are in place in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Selection of technology, standardization of processes, clear Standard Operating Procedures (SOPs), training, upkeep of assets etc.
- Proper training and development, incentives and reward system for employees at all levels.

2) Market Risks / Industry Risks: These include:

- Raw material availability and movement of rates.
- Demand and Supply Risks
- Quantities, Qualities, Suppliers and lead time
- Competition
- Increase in commercial costs

Risk Mitigation Measures:

- Tracking micro and macro-economic level data, market trends and forecasts by expert agencies, internal review by team of experts.
- Developing a good understanding and tracking of movement of rates of raw material at macro level, keeping a track on global and domestic economy, climatic conditions, geo-political factors, global demand and supply, trade policies etc.
- Alternative sources are developed for uninterrupted supply of raw materials.
- Demand and supply are external factors on which company has no control. However, based on experience gained from the past and by following the market dynamics as they evolve, such as competition, economic policies and growth patterns of different segments, the Company is able to estimate the demand during a particular period and accordingly the supply is planned and adjusted.

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 utilization in customer-plants etc.



- Proper inventory control systems have been put in place.
- The Company has been increasing operational efficiency and continue to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.
- Effective steps are being taken to reduce cost of production on a continuing basis through focus on cost and realization, budgets, budgetary controls, management control system, close watch on market dynamics etc.
- On competition side, keeping a close watch on competitor's strengths and weaknesses, competition dynamics etc.

3) Logistics Risks: Use of outside transport sources.

Risk Mitigation Measures:

- Company has a dedicated transport arrangement to handle all requirements relating to movement of raw materials, finished goods, scrap etc.

4) Political Environment risks:

Any adverse change in the political environment, government policies etc. can have an impact in growth strategies of the company.

Risk Mitigation Measures:

- Reviewing and monitoring the country's Petrochemicals related industrial labour and other related policies and involvement in representative industry-bodies.

5) Technological Obsolescence: The Company strongly believes that technological obsolescence is a practical reality.

Risk Mitigation Measures:

- Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.



6) **Disaster Risks:** Natural risks like Fire, Earthquakes, etc.

Risk Mitigation Measures:

- The properties of the company are insured against natural risks like fire, earthquakes etc. with periodical review of adequacy, rates and risks covered.
- Fire extinguishers have been placed at fire sensitive locations.

(II) FINANCIAL RISKS

1) **Liquidity Risks:** These include:

- Financial solvency and liquidity risks
- Cash management risks

Risk Mitigation Measures:

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organization.
- 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.
- Daily and monthly cash flows are prepared and monitored at senior levels to access the fund requirements and ensure utilization of funds in an effective manner.
- Cash management services are availed from Bank to ensure efficient collection and utilization of funds.

2) **Credit Risks:** These include risks in settlement of dues by dealers/customers

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provisions for bad and doubtful debts are appropriately made in books of accounts.
- Appropriate recovery management and follow up.



3) Foreign Exchange Risks:

- We face foreign currency exposure for our sales in other countries and from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

Risk Mitigation Measures:

- The objective of our risk management 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.
- Foreign currency exposures are recognized from the time an import/export order/contract is signed and as per contractual maturity prior to opening of Letters of Credit and/or Purchase Orders by customers.
- Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with a hedge cover as per policy.
- Our risk management on foreign exchange includes separate front and back offices for forex dealings, implementing hedging strategies for foreign currency exposures, specification of transaction limits, identification of the personnel involved in executing, monitoring and controlling such transactions.

4) Financial Reporting Risks:

- Changing laws, regulations and standards relating to accounting create uncertainty for the Company.

Risk Mitigation Measures:

- The Company is committed to maintain high standards of compliance to comply with evolving laws, regulations and standards.

5) Risk of Corporate Accounting Fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating expenses, understating revenues etc.



Risk Mitigation Measures:

- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives
- 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 authorizations of key transactions with cross checks.
- Creating a favorable atmosphere for internal auditors in reporting and highlighting any instances of even any minor non-compliance of Applicable laws, non-adherence to procedures and manuals and a host of other steps throughout the organization.

(III) OTHER RISKS

1) Human Resource Risks:

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

Risk Mitigation Measures:

- Ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence.
- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal systems with the participation of the employee and consistent with job content, peer comparison and individual performance for revision of compensation on a periodical basis has been evolved and followed regularly.
- Inculcate in employees a sense of belonging and commitment and also effectively train them in spheres other than their own specialization.
- Activities relating to the Welfare of employees are undertaken.
- Employees are encouraged to give suggestions and discuss any problems with their Superiors.
- Efforts are made to keep cordial relations with employees at all level.



2) Environmental Risk Management:

The Company endeavors 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 environment

Risk Mitigation Measures:

- Installation of Effluent Treatment Plants and sewage treatment plants at its various manufacturing units.
- Setting up of Rain harvesting wells at its various manufacturing units.
- Extensive plantation of trees around manufacturing plants is undertaken for green belt development.
- Setting up of electrostatic precipitators, filters etc as required from site to site.
- Focus on efficient operations of environment protection system and equipment.

3) Legal & Compliance Risks: Legal & Compliance risk is the risk in which the Company is exposed to legal action. The Company is governed by various laws and the Company has to do business within the four walls of law, where the Company is exposed to legal risk exposure.

Risk Mitigation Measures:

- Experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract and covering the risks involved so that they can ensure adherence to all contractual commitments.
- Management places reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.
- The Company has established a compliance management system in the organization to ensure compliance and reporting of various laws and Regulations applicable to the Company.



4) System Risks/Cyber Risk:

- System capability
- System reliability
- Data integrity risks

Risk Mitigation Measures:

- IT department maintains and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- The Company ensures “Data Security”, by having access control/ restrictions.
- Data backups are taken regularly and in a methodical way.
- Installation of anti-virus software’s to create firewalls.

DISCLAIMER CLAUSE

The Management cautions 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 judgement in assessing various risks associated with the Company.

REVIEW OF THE POLICY

The adequacy of this Policy shall be reviewed and reassessed by the Committee once in every two years and appropriate recommendations shall be made to the Board to update the policy based on the changes that may be brought about due to any regulatory amendments or otherwise.