



RISK MANAGEMENT POLICY

(EFFECTIVE FROM AUGUST 1, 2021 AS APPROVED BY THE BOARD OF DIRECTOR IN

THEIR MEETING HELD ON AUGUST 1, 2021)

YUVRAJ MEDICO PVT.LTD

RISK MANAGEMENT POLICY

BACKGROUND

Yuvraj Medico Pvt.Ltd (hereinafter referred to as ‘Company’) is engaged in the business of manufacturing Hygiene products. The business activities of the Company carry various internal and external risks.

‘Risk’ in literal terms can be defined as the effect of uncertainty on the objectives. Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organization continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

‘Risk Management’ is 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 uncertain events or to maximize the realization of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

Effective risk management requires:

- A strategic focus;
- Forward thinking and active approaches to management;
- Balance between the cost of managing risk and the anticipated benefits; and
- Contingency planning in the event that critical threats are realized.

LEGAL FRAMEWORK

The provisions of Section 134(3) of the Companies Act, 2013 necessitate that the Board’s Report should contain 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.

Further, the provisions of Section 177 of the Companies Act, 2013 require that 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 risk management systems.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a “Risk Management Policy” (this Policy).

OBJECTIVES

The main objectives of the Risk Management Policy are inter-alia, to ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed, to protect the brand value through strategic control and operational policies and to enable compliance with appropriate regulations wherever applicable, through the adoption of best practices.

In order to achieve this key objective, the policy establishes a structural and disciplined approach to risk management, which helps in arriving at correct solutions for various risk related issues.

The specific objectives of the Risk Management Policy are as under:

- 1) To identify and assess various business risks arising out of internal and external factors that affect the business of the Company.
- 2) To work out methodology for managing and mitigating the risks.

- 3) To establish a framework for company's risk management process and implement the same.
- 4) To follow best industry practices to ensure total compliance of all the regulatory matters.
- 5) To take adequate steps for smooth running of business, arrange for cover against currency fluctuation for imports and exports and assure sustainable and profitable growth for the Company.

DEFINITIONS

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

"**Policy**" means Risk Management Policy.

RISK STRATEGY

The Company recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

Types of Risks:

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, cyber security, return on investments, business cycle, increase in price and costs, limited resources, retention of talent, etc.

For managing Risk more efficiently the Company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the Company would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.

RISK FACTORS

I. BUSINESS OPERATIONAL RISKS

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

- ❖ Organisation 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 SOPs, training, upkeep of assets etc.
- ❖ Proper training and development, incentives and reward system for employees.

- 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:

- ❖ 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, movement by competition, economic policies and growth patterns of different segments, the Company is able to estimate the demand during a particular period and accordingly 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 utilisation 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.
- ❖ We always strive to meet the challenges by delighting our customers with product quality, timely supplies, best industrial practices in providing better services.

3) **Logistics Risks:** Use of transport sources.

Risk Mitigation Measures:

- ❖ Company has a dedicated in-house and outsourced transport group 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 of the country, government policies etc can have an impact in growth strategies of the company.

Risk Mitigation Measures:

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

5) **International Operations Risk:**

The inherent risks in conducting business internationally include:

- ❖ Country risk or risk of the region that we operate in, changes in political- economic conditions, laws or regulatory requirements.
- ❖ Country specific tax obligations
- ❖ Trade barriers and import/export licensing requirements
- ❖ Burden of complying with various foreign laws
- ❖ Difficulties in managing and staffing international operations

To mitigate the above risks, we shall avoid high-risk countries and even if we do business with such countries, we shall minimize/hedge our risk by routing the transactions through a third party/ by taking appropriate insurance etc.

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.
- ❖ First aid training is given to watch and ward staff and safety personnel.
- ❖ Well-designed hydrant systems and training of personnel for the same.

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 organisation.
- ❖ Annual 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.
- ❖ Quarterly 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/agents etc.

Risk Mitigation Measures:

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

3) Foreign Exchange Risks:

We continue to expand our business globally. Some of our revenues and payments are in foreign exchange, which makes it crucial to monitor movements in the forex market.

Risk Mitigation Measures:

- ❖ Managing the risks from foreign currency rate fluctuations, interest rate fluctuations is the prime function of our finance and treasury department.
- ❖ Keep a close watch on forex market and its trend and do review the movements regularly and hedge the risk with appropriate instruments.

4) Financial Reporting Risks:

- ❖ Changing laws, regulations and standards relating to accounting create uncertainty for the Company.
- ❖ Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies which could result in continuing uncertainty regarding compliance matters.

Risk Mitigation Measures:

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

(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 process for recruitment of personnel at various levels in the organization.
- ❖ 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 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 Measures:

- ❖ Installation of Effluent Treatment Plants and sewage treatment plants at its various manufacturing units.
- ❖ Extensive plantation of trees around manufacturing plants is undertaken for green belt development.

3) Legal Risks:

Legal 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 its business within 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.

4) System/ Cyber Security Risks:

- ❖ System capability
- ❖ System reliability
- ❖ Data integrity risks
- ❖ Malware
- ❖ Ransomware
- ❖ Spam and Phishing etc.

Risk Mitigation Measures:

- ❖ EDP 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.
- ❖ Restricting administrative privileges reduces the potential damage of an adversary’s malware.
- ❖ Multi-factor authentication have been implemented to prevent a cyber-adversary from gaining access to a device or network and accessing sensitive information.

RISK MANAGEMENT FRAMEWORK

A first step in the process of managing risk is to identify potential risks. The risks must then be assessed as to their potential severity of loss and to the probability of occurrence.

Possible actions:

Once risks have been identified and assessed, all techniques to manage the risk fall into one or more of the following categories.

a) Risk avoidance:

This includes not performing an activity that could carry risk, e.g. decision not to buy a disputed property.

b) Risk reduction:

This involves steps to reduce the severity of the loss by taking some steps, e.g. installation of fire hydrant system to minimize loss due to fire.

c) Risk transfer:

Means transfer of risk to another party by entering into a contract, e.g. insurance cover, hedging instruments etc.

Depending on the risk assessment, severity and probability of occurrence, company may adopt one or more of the methods to minimize or mitigate the risk.

RESPONSIBILITY OF RISK MANAGEMENT

Generally, every staff member of the Organization is responsible for the effective management of risk including the identification of potential risks. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

AMENDMENTS

Risks are ever changing in this volatile business environment and hence there is a need to periodically revisit the approach towards Risk management. Therefore, this policy shall be reviewed at least once in two years. Any revision to the policy shall be incorporated with the approval of Risk Management Committee and Board of Directors.

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 judgment in assessing various risks associated with the Company.
