

SOMANY CERAMICS LIMITED

RISK MANGEMENT POLICY **(effective from 5th August, 2021)**

BACKGROUND

This document lays down the framework of Risk Management at Somany Ceramics Limited (hereinafter referred to as the 'Company') 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.

LEGAL FRAMEWORK

Risk Management is a key aspect of Corporate Governance Principles and Code of Conduct which aims to improvise the governance practices across the business activities of any organisation. The Companies Act, 2013 have also incorporated various provisions in relation to development and implementation of Risk Management policy.

The provisions of Section 134(3)(n) 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(4)(vii) 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.

Regulation 2(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) also provide key functions of board of directors where they are required to review the risk policy.

Also Section 149(8) and Schedule IV of the Companies Act, 2013 prescribe the roles and functions of the independent directors according to which the independent director shall "help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct"

SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, has made certain amendments in Regulation 21, by virtue of which the Risk Management Committee and other related provisions are now applicable on top 1000 listed entities (previously applicable on top 500 companies only), determined on the basis of market capitalisation, as at the end of the immediate previous financial year.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a "Risk Management Policy" of the Company.

KEY DEFINITIONS

“Board of Directors” or “Board” means the Board of Directors of SCL, as constituted from time to time.

“Risk Management Committee or Committee” means Risk Management committee constituted by the Board of Directors of the Company, from time to time, under the relevant provisions of the Companies Act, 2013 and Listing Regulations.

"Policy" means Risk Management Policy.

“Risk” is defined as the chance of a future event or situation happening that will have an impact upon company’s objective favourably or unfavourably. It is measured in terms of consequences and likelihood.

Risk Assessment the systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

Risk Management the systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

Risk Management Process the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

CONSTITUTION OF RISK MANAGEMENT COMMITTEE

The Board of Directors of the Company shall form a Risk Management Committee (hereinafter referred to as “Committee”) comprising minimum three members with majority of them being members of the board of directors, including at least one independent director, who shall periodically review this Policy of the Company so that the Management controls the risk through properly defined network. The Board of Directors may re-constitute the composition of the Committee, as it may deem fit, from time to time.

The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

The Risk Management Committee shall meet twice in a year. The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings.

The role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in part D of Schedule II of SEBI (LODR) and as modified/defined by law from time to time. The Risk Management Committee shall provide oversight and will report to the Board of Directors who have the sole responsibility for overseeing all risks.

The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

SCOPE

This Risk Management Policy applies to all while considering/preparing, Strategic plans, Operational Plans & activities, Financial Plans and Environment Plans of the Company. The Company acknowledges that all activities have an element of risk and that not all risks can or should be transferred. The Company is committed to managing risks including strategic risks, at all levels in the organization and summarizes these risks into four broad categories: Operational risk; Financial risk; External environment and Strategic risk.

Operational Risk	Financial Risk	External Environment	Strategic Risk
Cost overrun	Accounting and related fraud	Environmental Issues (Pollution etc), Government policies	Demand Shortfall
Commodity prices	Finance and Treasury	Laws & Regulations	Customer retention
Operating controls	Asset or capital loss	Corruption and Bribery	Product Pricing
Capacity Management	Goodwill and amortization		Integration Problems
Employee Related issues including Fraud	Laws & Regulations		Laws & Regulations
Supply chain issues	Debt and Interest Rates		R & D
Laws & Regulations			Industry / sector downturn

OTHER RISK FACTORS

The objectives of the Company are subject to both external and internal risks some are enumerated below:-

EXTERNAL RISK FACTORS

- Economic Environment and Market conditions
- Political Environment
- Competition
- Revenue Concentration and liquidity aspects – Each business area of products such as tiles, vitrified tiles, sanitary ware, bathfittings and allied products has specific aspects on profitability and liquidity. The risks are therefore associated on each business segment contributing to total revenue, profitability and liquidity. Since the projects have inherent longer time-frame and milestone payment requirements, they carry higher risks for profitability and liquidity.
- Inflation and Cost structure-

Inflation is inherent in any business and thereby there is a tendency of costs going higher. Further, the project business, due to its inherent longer timeframe, as much higher risks for inflation and resultant increase in costs.

- **Technology Obsolescence –**
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.
- **Legal –**
Legal risk is the risk in which the Company is exposed to legal action. As the Company is governed by various laws and the Company has to do its business within four walls of law, the Company is exposed to legal risk.
- **Fluctuations in Foreign Exchange-**
While our functional currency is the Indian rupee, we transact some portion of our business in USD/Euro and other currencies and accordingly face foreign currency exposure from our sales in other countries and from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to risk on account of adverse currency movements in global foreign exchange markets. We manage risk on account of foreign currency fluctuations through limited hedging but whenever warranted after carefully evaluating the proposed transactions. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. 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. Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with limited hedge cover so that moderate arbitrage efficiency is achieved against the existing borrowing rates of interest. Our risk management policies are approved by senior management and include implementing hedging strategies, if required, for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

INTERNAL RISK FACTORS

- Project Execution
- Contractual Compliance
- Operational Efficiency
- Hurdles in optimum use of resources
- Quality Assurance
- Environmental Management
- Human Resource Management
- Culture and values

RISK MANAGEMENT PROCESS

1. Identification of risks

To ensure key risks are identified by the company:

- Define the risks in the context of the company's strategy
- Documents risk profiles, including a description of the material risks and
- Regularly reviews and updates risk profiles.

The company's risk profile is summarized below.

2. Assessment of risks.

The risk assessment methodology shall include:

- Collection of information
- Identification of major risks
- Rating of each risks on the basis of
 - Consequences
 - Exposure
 - Profitability
- Prioritization of risks
- Function wise exercise on risk identification, risk rating, control
- Function wise risk setting the level of responsibility and accountability

3. Measurement and control

Identified risks are then analysed and the manner in which risks are to be managed and controlled are then determined and agreed. The generally accepted options are:

- Accepting the risks(where it is assessed that the risk is acceptable and where avoiding the risks presents a greater risk through lost opportunity)
- Managing the risks(through controls and procedures);
- Avoiding the risks(through stopping the activities);
- Transferring the risks(through outsourcing agreements);
- Financing the risks (through insurance arrangements).

4. Continuous Assessment

The company's risk management requires continuing cycle of implementing, monitoring, reviewing and managing the risk management process.

RESPONSIBILITY FOR RISK MANAGEMENT

Generally every staff member of the Organisation 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.

COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management's processes and to identify, assess and monitor risk associated with Organisation's business operations. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external

agency in this regards and action taken or proposed resulting from those reports.

BUSINESS CONTINUITY PLAN

Business continuity system is one of the most important components of the organization, which makes it possible to avoid and prevent the risks of business interruptions, maintain and enhance Somany's image among its consumers, Business Partners, and public officials ("Parties Concerned"), strengthen confidence in Somany and improve loyalty. It mainly focus on prevention, identification and elimination of existing and future threats to Somany's business, proactive approach to minimize impact of incidents, effective actions taken in the event of business interruption, minimization of the periods and consequences of downtimes during incidents, reduction of the recovery time.

REVIEW

This Policy shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.

AMENDMENT

This Policy can be modified at any time by the Board of Directors of the Company.