Elecon Engineering Company Limited

RISK MANAGEMENT POLICY

Revision Record Sheet

Revision history

Version	**Date**	**Revision**	**Reason**

This document has been reviewed by:-

Sr. No.	Reviewer	Date reviewed

This document has been approved by

Sr. No.	Name	Signature	Date reviewed

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1. PREAMBLE:

The Board of Directors has adopted the Policy with regard to the Risk Management of the Company at its meeting held on 6th August, 2021. This document lays down the framework of Risk Management at Elecon Engineering Company Limited (hereinafter referred to as the 'Company') and defines the Policy and Procedures for the same. It seeks to identify risks inherent in any business operations of the Company as well as its subsidiary companies and provides guidelines to define, measure, report, control and mitigate the identified risks.

The Companies Act, 2013 ('the Act') and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') (including amendments thereof from time to time) emphasize the requirement of Risk Management Policy for the Company.

Pursuant to the provisions of the Act, 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 shall be included in the Board's Report.

The Audit Committee is required to evaluate the internal financial controls and risk management systems of the Company and the Independent Directors shall satisfy themselves that the systems of risk management are robust and defensible.

According to the Listing Regulations, the Company shall lay down procedures to inform Board members about the risk assessment and minimization procedures and the Board shall be responsible for framing, implementing and monitoring the risk management plan for the Company.

This Policy is framed in compliance with the provisions of the Act read along with the applicable rules thereto and Regulation 21 of Listing Regulations.

2. TERMS AND DEFINITIONS:

- Risk – Risk is an uncertain event or condition that may have a positive or negative effect on business goals.
- Challenges – If the event is certain to happen, or has happened the risk would by definition lead to an issue/challenge. Mostly these challenges/issues are already addressed as part of annual planning processes. A challenge is also a form of obstacle that needs to be overcome to achieve desired business outcome. These are "certain" or on-going events and hence are not to be considered or treated as risks.
- Audit Committee shall mean a Committee of Board of Directors of the Company, constituted in accordance with the provisions of Section 177 of the Companies Act, 2013
- Board means Board of Directors of the Company.
- Company means Elecon Engineering Company Limited.

- Independent Director means a Director referred to in Section 149(6) of the Companies Act, 2013 and Regulation 16(1)(b) of Listing Regulations.
- Policy or This Policy or Plan means “Risk Management Policy”.
- Risk Management Committee means the Committee constituted by the Board to monitor and review the risk management plan and such other functions as it may deem fit, majority of Committee shall consist of members of the Board of Directors. Senior executives of the Company may be the members of the said Committee but the Chairman of the Committee shall be a member of the Board of Directors.
- Enterprise Risk Management - Enterprise Risk Management is the systematic approach to managing all risks in an organization, in order to protect and enhance value. Enterprise risk management deals with risks and opportunities affecting value creation or preservation and is defined as follows:

  Enterprise Risk Management (ERM) is a process, effected by the Board of Directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect its entity’s business objectives, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Company’s objectives.
- Risk Register – Compendium of all risks finalized and detailed with risk definition, risk mitigation and risk contingency plans.

3. OBJECTIVE:

The main objective of this Policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the Company’s business. In order to achieve the key objective, this Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

Through Enterprise Risk Management Plan - threats are identified and then managed that could severely impact or bring down the organization. Company’s Enterprise Risk Management plan is directed to enable management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value. Broadly, it encompasses:

- Promoting risk awareness throughout the company
- Defining risk appetite
- Identifying and managing multiple and cross-enterprise risks
- Identifying risk management team with clearly defined roles and responsibilities
- Formalizing risk response decisions
- Reducing operational surprises and losses
- Formalizing a process for identifying opportunities arising out of risk situations
- Improving deployment or more efficient use of capital and resources

Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats. Particularly Risk Management aims at creating stakeholder's value.

4. ROLES AND FUNCTIONS OF VARIOUS AUTHORITIES:

4.1 Independent Directors:

As per Sub- section (8) of Section 149 the roles and functions of the independent directors 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;

- satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

4.2 Board of Directors / Audit Committee:

As per Sub- section (4) of Section 177, 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.

The Board provides oversight with regard to Risk Management and reviews the adequacy and effectiveness of business risk management as undertaken by the company

The Board has a key role in the oversight of Risk Management. The Board should be apprised on a timely basis of the most significant risks, management's assessment, and planned responses, if any.

Importantly, the Board should feel comfortable that appropriate processes are in place and that management is positioned to identify, assess, and respond to risk, and to bring relevant information to the Board level.

4.3 Key roles and responsibilities are outlined below:

- Initiate the Risk Management process and set the risk management philosophy.
- Reviewing and approving risk management related policies, procedures and parameters that govern the management of the Company, Departments etc.
- Reviewing the entity's portfolio view of risk and considering it against the entity's risk appetite.
- Reviewing the most significant risks and appropriateness of management response.
- Allocating adequate resources for treating critical risks and (or) risk events at a Company level.

- Ensures the requisite systems and practices are in place to manage key risks to which the Company is exposed.
- Endorsing the risk management structure and authorizing roles and responsibilities for key stakeholders.
- Independent review of the ERM department and its activities pertaining to the risk management intent in form and spirit.
- Ensures that high risk areas are addressed in the internal audit plans for validation of controls.

4.4 Chief Risk Officer (CRO):

The CRO works with Management Team in establishing effective ERM in their areas of responsibility.

Under the guidance of MD, the CRO(s) co-ordinates enterprise risk management across the Company. He acts as a facilitator by assisting Management Team in performing ERM activities, monitoring the progress and acting as a risk reporting channel.

Key roles and responsibilities are outlined below:

- Providing overall leadership to ERM process in line with directions of the Board
- Developing and assuming ownership of the risk management policy, framework and process. Implementing the ERM framework, policy and process across the Company, Departments etc.
- Establishing procedures and timelines for various risk management activities
- Provide necessary information and feedback to facilitate definition of risk thresholds at Company/ Department levels.
- Liaising with Risk Management Committees at various levels for deploying the ERM process
- Facilitating risk identification, evaluation, prioritization and consolidation
- Assisting the respective Departments in the identification of risk owners for each risk
- Providing input and feedback on proposed risk treatment plans and initiatives. Also, coordinates with different functions for cross-functional mitigation measures.
- Monitoring progress of implementation of risk treatment plans and strategies
- Ensuring that risk reviews are carried out on a periodic basis in order to maintain continuity of the risk management process
- Preparing and communicating risk reports with risk mitigation measures to relevant stakeholders
- Training and collaborating with the Departments in carrying the ERM process further on a regular basis to aid management in decision making
- Promoting risk management culture through trainings, reporting and other internal Communications
- Developing the analytical systems and data management capabilities to support the risk management program

- Developing an annual risk management training calendar to ensure that individuals engaged in risk management are:
- Updated about risk management policies, processes and practices
- Developed with appropriate risk management skills and competencies
- Reviewing significant deviations from the risk management framework or other risk management procedures and bringing it to Risk Management Committee / Board's attention as appropriate
- Rendering support to the Risk Management Committee for effecting changes to the risk management organization and process
- Assisting with implementation of procedures for proactive review of risks for projects, transactions, new businesses, etc.
- Monitoring external trends and factors that may have significant impact on the risk profile of the Company and communicating the information to all stakeholders within the Company
- Take ownership of implementation and ongoing improvement of e-enablement initiatives for ERM function
- Developing risk management policies and proposing necessary updates

5. ENTERPRISE RISK MANAGEMENT PROCESS:

The Company's risk management program comprises of a series of processes, structures and guidelines which assist the Company to identify, assess, monitor and manage its business risk, including any material changes to its risk profile.

To achieve this, the Company has clearly defined the responsibility and authority of the Company's Board of Directors as stated above, to oversee and manage the risk management program, while conferring responsibility and authority on the Company's senior management to develop and maintain the risk management program in light of the day-to-day needs of the Company. Regular communication and review of risk management practice provides the Company with important checks and balances to ensure the efficacy of its risk management program.

The process of Risk Management deals with how the organization:

 Identifies risks that affect achievement of goals & objectives
 Measures the significance of each identified risk
 Determines the most appropriate business response to each risk
 Evaluates and reports on how well the chosen responses are being implemented

5.1 Risk Identification:

Risk identification involves identifying potential sources/ root cause of risk events. The purpose of identifying potential root causes is to give direction to risk intervention measures. The fact that one risk might have multiple root causes also needs to be considered. As a part of the risk identification process, it is also important to understand which of the business drivers are impacted by the materialization of a risk or any of its root causes.

The Company majorly focuses on the following types of material risks:

- Commodity risk;
- Business risk;
- foreign exchange risk;
- technological risks;
- strategic business risks;
- operational risks;
- quality risk;
- competition risk;
- realization risk;
- cost risk;
- financial risks;
- human resource risks; and
- Legal/regulatory risks.

5.2 Risk categorization:

In order to facilitate an objective assessment of identified risks, these are categorized in terms of nature of impact on the objectives. The ERM program would cover the following main types of risks:

- Strategic risks: Risks that impact the strategic objectives of the division or Company
- Financial risks
- Credit Risks
- Market Risks
- Operational risks
- Supply Chain & Operations Risks
- IT and Security
- HRM
- Regulatory & Compliance Risks

5.3 Business Risk Vs. Operational Risk:

The comparison of the following two risk is always applicable to all the Companies.

Business risk:

Business risk is the risk that results from your decisions about the products and services you offer. When you decide to develop and market a particular product, there's a risk that the product won't work as well as you hoped or that your marketing campaign will fail. Other business risks include changes in the cost of raw materials or shipping and managing technological developments that affect sales or manufacturing.

Operational Risk:

Operational risks exist in the way your company tries to carry out your decisions. Operational risk rises from your company's internal decision-making and practices. Even if your business idea is sound and you have a solid customer base, an operational risk can sink your business.

5.4 Risk Analysis:

Risk analysis refers to the process followed to comprehend the nature of risk and determine the level of risk. Risk analysis is intended to provide inputs for risk evaluation.

Risk analysis shall be performed for each risk identified. The onus of risk analysis is with the risk identifier, who may choose to consult with the ERM department for this purpose. Based on the results of the analysis, appropriate action shall be taken (risk escalation and risk treatment).

Techniques of risk analysis involves consideration of:

- Risk velocity – How quickly is the risk likely to manifest itself
- Likelihood of risk events – How frequently the event / risk is likely to occur
- Impact of risk – Quantum of the effect of the event / risk

5.5 Risk Assessment And Evaluation:

Risk assessment refers to the process followed to comprehend the nature of risk and determine the level of risk. Risk assessment is intended to provide inputs for risk evaluation.

Risk assessment provides a standard and consistent process for the Company and its Business Units / Functions to consider the extent to which potential events might have an impact on achievement of its objectives.

Risk evaluation is the process to determine whether the risk and/ or its magnitude is acceptable or tolerable.

The intent of risk evaluation is to:

- Enable escalation to the appropriate level of Management as per risk measurement criteria

- Prioritize for treatment implementation

Risk evaluation helps ensure appropriate resource allocation for the purpose of risk treatment and channelling of Management attention towards risks of significant concern.

Risk evaluation will involve risk prioritization for Department and the Company. Risk evaluation shall be done individually and collectively by Risk Management team / Steering Committee at various levels.

5.5.1 Managing materialized risks

In the event of a particular risk materializing, it is necessary to have in place a crisis/ incident management plan for timely and effective management of such events. The incident management plan is a set of well-coordinated actions aimed at preparing and responding to unpredictable events with adverse consequences. The intention of this plan is to preserve the confidence of internal and external stakeholders in the Company's risk readiness for potentially adverse events.

The Company recognizes the need for and shall design such a plan that will detail:

- The situations for which action plans shall be invoked
- The manner in which such plans shall be actioned
- The individuals/ departments involved in such planning and execution.

5.5.1.a **Loss event database**

Tracking of data pertaining to materialized risks is an essential input to the development and functioning of ERM. Such data is crucial for fine-tuning estimates of impacts of potential risks based on actual experience in the past.

The data pertaining to materialized risks shall be captured in a "Loss event database". Typical loss events can include (but may not be restricted to):

- Environment, Health and Safety incidents
- Damage to physical assets
- Business disruption
- Fraud – internal and external
- Loss of key customers/ vendors/ alliances
- Technology/ system failures

5.6 Risk Mitigation:

Risk mitigation relates to the policies, procedures, processes and other actionable steps implemented to address the risks associated with specified future events. Response to a risk has to be considered in light of costs to be incurred and consequent benefits (typically measured in terms of as estimate of the quantum of reduction in risk exposure).

Business risks are normal for any organization and as much as it is for the Company. It is not the intent in all cases to minimize, avoid or eliminate all risks that are identified. However, it is the intent that all Business Units/ Functions/ Processes understand the significant events that may impact business objectives and the associated risks. This is achieved by establishing a standard and consistent process for developing an acceptable risk response.

The mitigation plan should be developed using the following steps.

Risk Register & Risk Strategy

- Define Risk Portfolios
- Assign Portfolio Ownership
- Prioritise Risk Portfolios
- Plan Risk Monitoring & Response

Risk Monitoring & Treatment Plan

The above plan would be owned by the appointed Risk Owner.

- Every risk should have a clearly identified owner (no gaps, no ambiguities).
- Proper risk ownership helps ensure that every identified risk is managed consistently, without duplications of effort, and in line with company objectives, improving the effectiveness and efficiency of risk management activities.
- Risk owners are not necessarily the direct owners of all risk management activities in their area, but they have a control and coordination role, and are accountable for the results achieved.
- Accountability for managing a risk should be assigned to the same organizational level that has the authority and responsibility to take decisions related to the corresponding objectives.
- Risk owners should have sufficient “standing” in the company (department head or above).
- The decision matrix presented below supports the company in appointing the most appropriate risk owners.

5.7 Risk Monitor, Review and Report:

Risk monitoring, review and reporting are critical components of the ERM process. The intent of monitoring and reviewing risks and their respective treatment plans is to:

- Analyse and track events, changes, trends which affect identified risks. As part of this, the impact of such events on treatment plans is also assessed.
- Detecting changes and assessing the impact of changes to risk appetite, risk portfolio, risk treatment plans.
- Ensure that risk treatment mechanisms are effective in design and operation.

Risk monitoring shall be conducted by each Department on a monthly basis, for identified risks, in order to track the status of treatment plans and consequently update changes to risk profiles.

Risk reviews shall be conducted to enable continuity of the ERM process. Risk reviews entail the reassessment of all risks recorded in the Company, Department level risk registers along with new/ emerging risks to ensure concurrence and relevance of risks and their treatment. Risk reviews will be carried out at a minimum on a quarterly basis.

The ERM function shall assist the monitoring and review process at the Department/ Company level. The ERM function shall ensure that results of the monitoring process depicted in the form of risk reports are reported internally and externally, as appropriate.

6. BENEFITS OF RISK MANAGEMENT:

Risk management is an important aspect of any business, as risks are an integral part of business. Risk management helps organizations manage risk to be within their risk appetite. Effective RM provides reasonable assurance regarding the achievement of the key organizational objectives in four broad categories: Strategic, Operations, Financial and Compliance. If an organisation has an effective Risk Management system, it helps in the following ways:

- **Link growth, risk and returns** - Risk management enhances the capacity to identify events and assess risks and set risk tolerances consistent with growth and return objectives;
- **Rationalise resources** - Deploy resources more effectively, thereby reducing overall capital requirements and improving capital allocations;
- **Exploit opportunities** - Identify and take advantage of positive events quickly and efficiently;
- **Reduce operational surprises and losses** - Recognise potential adverse events, assess risks and establish responses, thereby reducing surprises and related costs or losses;

- **Report with greater confidence** - Prepare internal and external information that is reliable, timely and relevant; and
- **Satisfy legal and regulatory requirements** - Ensure compliance with legal and regulatory requirements and identify risks of non-compliance.

7. OVERSIGHT AND MANAGEMENT

7.1 Risk Management Committee:

The Constitution of the Members of the Committee is available at the website of the Company. The Committee is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes and provides regular reports to the Board of Directors on the effectiveness of the risk management program in identifying and addressing material business risks. The role of the committee as specified under Listing Regulations shall, *inter alia*, include the following:

1) To formulate a detailed risk management policy which shall include:
    a. A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
    b. Measures for risk mitigation including systems and processes for internal control of identified risks.
    c. Business continuity plan.
2) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
3) To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
4) To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
5) To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
6) The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.

The Risk Management Committee shall co-ordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

7.2 Senior Management (Executive Risk Team):

Executive Risk Team of the Company generally consists of following executives of the Company:-

- Managing Director
- Head(s) of the Division(s)
- Chief Financial Officer
- Company Secretary

The Company's Senior Management is responsible for designing and implementing risk management and internal control systems which identify material risks for the Company and aim to provide the Company with warnings of risks before they escalate. Senior Management must implement the action plans developed to address material business risks across the Company and individual business units.

Senior Management should regularly monitor and evaluate the effectiveness of the action plans and the performance of employees in implementing the action plans, as appropriate. In addition, Senior Management should promote and monitor the culture of risk management within the Company and compliance with the internal risk control systems and processes by employees. Senior Management should report regularly to the Risk Management Committee regarding the status and effectiveness of the risk management program.

7.3 Employees:

All employees are responsible for implementing, managing and monitoring action plans with respect to material business risks, as appropriate.

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.

7.4 Review of risk management program:

The Company regularly evaluates the effectiveness of its risk management program to ensure that its internal control systems and processes are monitored and updated on an ongoing basis. The division of responsibility between the Board, the Committee and the Senior Management aims to ensure the specific responsibilities for risk management are clearly communicated and understood.

The reporting obligation of Senior Management and Committee ensures that the Board is regularly informed of material risk management issues and actions. This is supplemented by the evaluation of the performance of risk management program, the Committee, the Senior Management and employees responsible for its implementation.

7.5 Key Documentation:

The following documents are generated during the course of the ERM exercise:

Document	Description	Owner	Periodicity of Review
Risk register	Record/ log of information about identified risks	Designated Risk Owner of the Department	Monthly
Risk report	A report/ form of communication intended to inform particular stakeholders by providing information regarding the current state of key risks and its management.	Risk Management Committee	Quarterly /Half Yearly
Risk profile	Detailed description of a risk which is deemed priority to the Department or the Company. It shall include current risk response, and details of management action plans for further treatment including responsibilities and timelines	Risk owners	Monthly

7.6 Document Management:

The ERM framework is owned by the Chief Risk Officer. Changes to the document need to be processed through the owner, and require the consensus of the Board for ratification. The framework shall be reviewed annually to ensure that the intent of the same and its covenants are relevant to the Company and its entities.

For the purpose of ensuring traceability of ERM activities, documentation shall be maintained in physical or electronic form and retained as defined by the Company's preservation of documents policy. At the business and division levels shall be maintained by Department representatives designated for this purpose.

8. CONCLUSION:

The risk management process involves reviewing of operations, identifying the risks an organization is subject to, deciding how to manage it, implementing the management technique, measuring the ongoing effectiveness of management and taking appropriate correction action.

The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimise their adverse impact on the organization.

9. AMENDMENTS:

The Audit Committee and Board of Directors shall have the power to modify, amend or replace this Policy in part or full as may be thought fit from time to time in their absolute discretion as far as it is not in contravention of Listing Regulations.

In case of any inconsistency between any of the provisions of the Listing Regulations, / the Companies Act and this Policy or in case of any omission of any of the provisions of the Listing Regulations / the Companies Act, 2013 in this Policy, the provisions of the Listing Regulations / the Companies Act, 2013, as amended shall prevail or be applicable, as the case may be.

Any other term not defined herein shall have the same meaning as defined in the Companies Act, 2013, the Listing Regulations or any other applicable law or regulation to the extent applicable to the Company.

10. DISSEMINATION OF POLICY:

The Risk Management Policy shall be disclosed in the Annual Report of the Company, as per the provisions of laws in force. The policy shall also be uploaded on the website of the Company at www.elecon.com.

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