RFCL

स्वच्छ भारत
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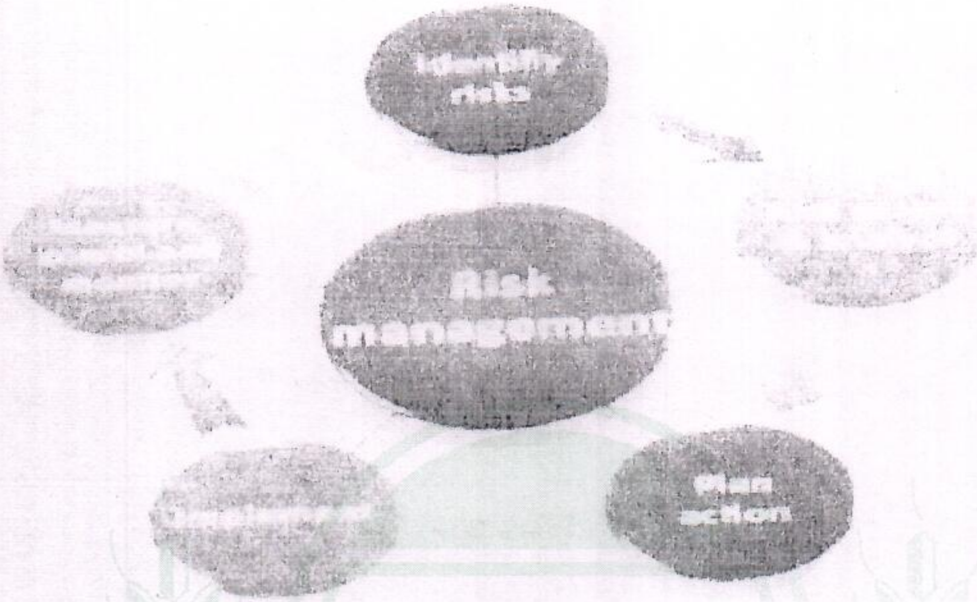
Risk Management Policy



RFCL

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रामागुण्डम फर्टिलाइजर्स एण्ड केमिकल्स लिमिटेड

Ramagundam Fertilizers and chemicals Limited

(A Joint Venture company of NFL, EIL and FCIL)

Ramagundam, Telangana-505210

Committee for formulation of Risk Management Policy

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Risk Management Policy

Version # 1.0

Table of Contents

Syam 08/12/20
Manager (TS/S)

08/12/20

Rajat

8/12

1.0 Background

All Organizations face internal and external factors that influence the timelines and attainment of the business objectives. The effect of this uncertainty on an organization's objectives is termed as "RISK". In recent times, all sectors of the economy have shifted focus towards the management of risk as the key to making organizations successful in delivering their objectives while protecting the interests of their stakeholders. Risk may be defined as events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk.

Organizations that are most effective and efficient in managing risks to both existing assets and to future growth will, in the long run, outperform those that are less so. Simply put, companies make money by taking intelligent risks and lose money by failing to manage risk intelligently.

Risk management is a holistic, integrated, structured and disciplined approach to managing risks with the objective of maximizing shareholder's value. It aligns strategy, processes, people & culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the organization while creating value.

With the vision to integrate risk management with the overall strategic and operational practices, a Risk Management policy has been drafted, as a comprehensive set of components that provide the foundation and organizational arrangements for designing, implementing, monitoring, reviewing and improving risk management on continuous basis throughout the organization.

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08/12/20

1.1 DEFINITIONS

Risk

Risk has two characteristics:
Uncertainty: An event may or may not happen.
Loss: An event has unwanted consequences of losses.

Thus risk is defined as an uncertain event or set of events which, should it occur, will have an effect on the achievement of objectives. A risk is measured by a combination of the probability of a perceived threat or opportunity occurring and the magnitude of its impact on objectives.

Risk Management

Risk management refers to the practice of identifying potential risks in advance, analysing them and taking precautionary steps to reduce/curb the risk.

Risk Management Framework

A risk management framework (RMF) is the structured process used to identify potential threats to an organisation and to define the strategy for eliminating or minimizing the impact of these risks, as well as the mechanisms to effectively monitor and evaluate this strategy.
As most widely accepted framework for Risk assessment policy should have following five steps.

1. Identification of risk
2. Assessment of risk
3. Evaluate or rank the risk
4. Risk Control or mitigation of risk
5. Reporting, Monitoring and review of the Risk

Risk Identification
Risk identification is the process of identifying the organization's exposure to uncertainty.

Risk Assessment
Risk assessment is the overall process of risk analysis and risk evaluation. It allows an entity to consider the extent to which potential risk events have an impact on achievement of objectives.

Risk Database
Repository of all risks facing RFCL categorized as Severe, High, Medium or Low based on the impact.

Impact
The degree of consequences to the organization should the event occur.

Risk Source
Element which alone or in combination has the intrinsic potential to give rise to risk.

08/12/20

08/12/20

2.0 Objective

The objective of the Risk Management Policy is to evolve a strategy to have a balanced approach towards business plan and to mitigate the associated risks through better management practices, resulting in greater degree of confidence amongst various stakeholders and also to adhere to Corporate Governance. Considering the significance of risk management in the scheme of corporate management strategies, its monitoring is one of the main responsibilities of Board / Management.

As per Section 134(3)(n) of the Companies Act, 2013, a Company is required to 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.

The specific objectives of the Risk Management Policy are:

1. To establish a risk intelligence framework for the organization;
2. To establish ownership throughout the Organization and consider risk management as in integral part of the business rather than a stand-alone system
3. To help the decision makers of the organization explicitly take account of uncertainty, the nature of that uncertainty, and work towards a solution to address it
4. To ensure that all the current and expected risk exposures of the organization are identified, qualitatively and quantitatively evaluated, analyzed and appropriately managed
5. To enable compliance with the relevant legal and regulatory requirements and international norms
6. To assure demonstrable achievement of objectives and improvement of financial stability of the organization

3.0 Framework for Risk Management Policy:

The Risk Management Policy of the Company shall comprise of a framework for assessment of risks arising out of operations as well as external environment, risk control & reporting of the same.

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08/12/20

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3.1 Risk Identification

Risk identification refers not only to the systematic identification of risks but also to the identification of its root causes. Risk owners in respect of each identified risk are responsible for the execution of risk managing action which includes documentation of the root cause of the risk as well as the mitigation factors in place through suitable risk assessment tool. In selection of risk identification technology, following techniques may be considered: -

- Team based brainstorming where workshops can prove effective in building commitment and making use of different experiences.
- Structured techniques such as flow charting, system design review, system analysis, hazard and operability studies, and operational modelling.
- For less clearly defined situations such as identification of strategic risks, processes with a more general structure such as "what- if" and scenario analysis could be used.

3.2 Risk Assessment:

Assessment of each of the risks shall be carried out as a continuous process and perceptions of new risks would be updated. Identified risks will be assessed in terms of potential consequences and cost of impact on asset, facilities, third parties etc. Risks will be ranked in accordance with their likely impact. The acceptability of each identified risk will be assessed. Responsibilities for management of each risk will be assigned to appropriate managers. Based on a cost / benefit assessment of risk, some risks may be judged as having to be accepted because, it is believed, mitigation is not possible or warranted.

3.3 Risk Evaluation

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.

Shyam 09/12/20
Manager (TS/S)

08/12/20

Rajat

- 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 the department and the Company as a whole. Risk evaluation shall be done individually and collectively by Risk Management Committee.

3.4 Risk Control:

Risk control is to examine each risk and decide as to how to prepare for the risk of event, if it occurs. It involves defining steps for responses to threats. Depending upon the Risk impact; strategy of action on considered measures or let risk happen, needs to be decided. The risk falling in the categories of severe or high need special attention and those in the categories of medium or tolerable need careful attention.

3.5 Reporting:

Risk Management is a continuous process applicable to all functions. Risk Management Committee of the Board would review identified risks and mitigation action taken on periodic basis before submission of report in the matter to Board.

4.0 Approaches to Risk Management Policy:

Company evaluates its business opportunities on parameters of viability, sustainability and profitability in the medium and long term in order to minimize probability of adverse impact of any unforeseen risk.

Careful analysis of the business environment; Corporate Plan and business practices followed by the Company, the foreseeable potential risks, in the present context and

Sram 08/12/20
Manager (TS/S)
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inbuilt risk mitigation mechanism practiced by the Company form the basis in structuring the Risk Management Policy.

The Risk Management Policy of the company has been formulated to put in place a framework for identification, assessment, evaluation, risk control and reporting which are as under:

a) **Identification and grouping of potential risks**
Potential business risks at RFCL will be identified and grouped primarily into major categories.

b) **Classification and grading of risks on the basis of their impact**

The Risk Matrix would indicate the impact of risk on the operations, revenue, profitability and sustainability of the business and the likelihood of its occurrence. For each identified potential business risk, Triggers / Indicators would be identified that would raise an alarm about the criticality of risk.
Impact of an event would be categorized under four classes: viz. Severe / High / Medium / Low and its likelihood would be categorized under four classes, viz. Significant/High / Medium / Low.

The criterion for the above impacts would be as under:

Class	Criterion
Severe	> ₹50 crore
High	> ₹ 10 crore < ₹ 50 Crore
Medium	> ₹ 1 crore < ₹ 10 Crore
Low	< ₹1 crore

c) **Framing strategies for mitigation of identified risks**
The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

(i) **Risk Avoidance:** By not performing an activity that could carry risk. Avoidance may appear to be the answer for all the risks, but avoiding risks may also result in losing out on the potential gain that accepting (retaining) the risk may have allowed.

Syam 08/12/20
Manager (TS/S)

08/12/20

Rajat

8/12

(ii) **Risk Transfer:** Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging or through Insurance

(iii)**Risk Reduction:** Employing methods / solutions that reduce the severity of the loss.

(iv)**Risk Retention:** Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater than the total losses likely to be sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums are not affordable.

d) **Procedure for monitoring and systematic reporting to the Board / Committee of Directors**

Designated department would be coordinating department to implement Risk Management Policy, under guidance of Risk Management Committee **(RMC).**

5.0 Responsibility for implementing Risk Management Policy

The detailed framework for risk identification & grouping, assessment, review mechanism and process preparation for risk mitigation shall be separately put up for consideration & approval of Risk Management Committee of the Board.
Designated department would be coordinating department to implement Risk Management Policy, under guidance of Risk Management Committee **(RMC).**

6.0 Communication

6.1 Communication of the Risk Management Policy across the company:

For the effective implementation of the risk management policy, communication and training across the company is required & Policy shall be displayed on website. Further, any significant change in the policy shall be communicated to the employees across the layers to make aware of:

08/12/20
manager (TS/S)

08/12/20

- The risks faced by the company
- Their impact on the business, if it happens
- Mitigation measures to prevent happening and lower the impact
- What to do if it happened

6.2 Disclosure in the Annual Report

Disclosure in the annual report shall be made as per applicable provision / practice followed by unlisted companies.

7.0 Review Mechanism

The Risk Management Policy of the Company needs to be continuously reviewed to ensure that it meets the requirement of dynamic business environment, to identify any new risks to which the company is getting exposed and to capture the changes in legislation, as may be required.

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08/12/2020

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8/12