THE SUKHJIT STARCH & CHEMICALS LIMITED

RISK MANAGEMENT POLICY

1. INTODUCTION

The Sukhjit Starch & Chemicals Ltd. (the "Company") Board of Directors ("the Board") recognises that risk management and internal control are key elements of good corporate governance. This Policy describes the manner in which the Company identifies, assesses, monitors and manages risk.

2. BACKGROUND

The Company is engaged in the manufacture of starch & its derivatives having manufacturing facilities in Punjab, Telegana, West Bengal & Himachal Pradesh. 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 organisation 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 realisation 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:

- More effective strategic planning
- Better cost control
- Enhancing Shareholder value by minimising losses and maximising opportunities
- Increased knowledge and understanding of exposure to risk
- A systematic, well-informed and thorough method of decision making
- Minimised disruptions
- Better utilisation of resources
- Forward thinking and active approaches of management
- Balance between the cost of managing risk and the anticipated benefits, and
- Contingency planning in the event of any critical threat materialised.

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: Government Policies & Regulations, competition, Business risks, Operational risks, Financial risks, Cyber security risks, Technology obsolescence, return on investments, business cycle, increase in price and costs of Raw Material, limited resources, retention of talent, regional economic conditions, demand scenario, local labour conditions, climatic conditions etc.

3. 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 and the SEBI (LODR) Regulations, 2015 of the Equity Listing Agreement have also incorporated various provisions in relation to Risk Management policy/ systems, procedure and practices.

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.

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

4. PURPOSE AND SCOPE OF THE POLICY

The main objective of this Policy is to ensure sustainable business growth with financial 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.

The specific objectives of this Policy are:

- To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.

- To establish a framework for the company's risk management process like setting boundaries of risk taking and identifying/ evaluating the significant risks to the achievement of objectives and to ensure its implementation.

- To enable compliance with applicable laws/ acts/ regulations, through the adoption of best practices.

- To assure business growth with financial stability.

- To incorporate risk responses into a system of internal control which is designed to address opportunities, protect people, the environment and assets, facilitate effective and efficient operations and help to ensure reliable reporting and compliance with applicable laws and regulations.

- To monitor the effectiveness of the system of risk and internal control management.

5. APPLICABILITY

This Policy applies to all areas of the Company's operations.

6. PRINCIPLES OF RISK MANAGEMENT

In order to fulfill the objectives of this policy, it discribes the following guiding principles of Risk Management to ensure that:

- All business decisions are made with prior information and acceptance of the risks involved.
- The Risk Management Policy shall provide protection of business from uncertainties and consequent losses.
- The occurrence, progress and status of all risks shall be immediately reported and appropriate actions be taken to mitigate the risks.
- The risk mitigation measures adopted by the company shall be effective in the short – term as well as in the long- term.
- All employees of the company shall be made aware of risks in their respective areas and their mitigation measures.
- Risk tolerance levels will be regularly reviewed.

7. RISK FACTORS

The Company may be exposed to various risks which may be classified into external and internal risks, as enumerated below:-

➢ **EXTERNAL RISK FACTORS**

- **Economic Environment and Market conditions/ Dynamism**
- **Political Environment**
- **Government Policies and regulations**
- **Cyber security risks**
- **Business risks-**

Business Risks include the risks associated with the Company having an adverse impact on the company's ability to execute activities effectively & efficiently, thereby affecting its performance. Business Risks include Competition Risks, Concentration Risks and Change in Demand scenario risks

- **Commodity risks-**

Commodity risks include change in commodity prices due to political and regulatory changes, seasonal variations, weather, technology and market conditions. Unexpected changes in commodity prices can reduce the profit margin and make budgeting difficult. Financial instruments like Futures and Options are used to hedge the commodity price risk.

- **Inflation and Cost structure-**

Inflation is inherent in any business and thereby there is a tendency of costs going higher, especially in case of expansion projects involving longer time- frame, there are higher risks for inflation and resultant increase in costs.

- **Climatic conditions-**

The Basic Raw Material of the Company i.e. Maize is an Agri-Produce, the quality/ availability/ price of which is subject to natural vagaries and climatic conditions like droughts/ excessive rains etc.

- **Technology Obsolescence –**

The Company strongly believes that technological obsolescence is a practical reality and can pose serious implications if not evaluated on a continuous basis.

- **Legal/ compliance risks –**

Legal / compliance risks are the risks in which the Company is exposed to legal action due to non- compliance/ infringement of any act/ regulation. As the Company is governed by various laws/ regulations and the Company has to do its business within four walls of law which mainly include Direct Taxes, Indirect Taxes, Labour Laws, Companies Act, Ind-AS, SEBI Regulations and other applicable corporate laws/ acts.

- **Fluctuations in Foreign Exchange-**

The Company has limited currency exposure in case of sales, purchases and other expenses. It has natural hedge to some extent. However, beyond the natural hedge, the risk can be measured through the net open position i.e. the difference between un-hedged outstanding receipt and payments.

- **Environmental risks-**

These risks may arise due to non compliance of pollution control measures of the Government, possibility of any adverse effect on living organisms/human life associated with pollution of the environment by effluents, emissions, wastes, energy use; or the depletion of natural resources.

- **Force Majeure Risks-**

These risks may arise due to events like droughts/ floods/ other natural calamities including earthquake etc. affecting operations, war, theft of key equipment and other acts of God.

➢ **INTERNAL RISK FACTORS**

- **Operational Risks-**

Operational risks are those risks which are associated with the operational uncertainties, like

a. Risks arising for failures to comply with operational policies and procedures on day to day basis like maintenance of quality and vendors.

b. Risks associated with the repair, maintenance and upgradation of plant/ machinery/ equipment etc.

c. Risks associated with timely procurement of raw- material, stores & spares, fuel, packing material etc. at a competitive price to ensure continues operations of the plant.

d. Risks arising from quality/ availability of the Company’s executives/ workmen and employee turnover etc.

e. Risks associated with computer hardware & software e.g. obsolescence, security, availability, access, back-up, etc and communication systems of the company.

- **Financial risks-**

Financial Risks include non realization of dues from the customers or non receipt of any loan/ advance or increased interest on a business loan, risks arising from failure to manage financial aspects like liquidity, market risk exposures due to commodity price fluctuations and to provide complete, accurate and timely financial reports to internal and external users.

- **Health and safety risks-**

These risks include risk of food adulteration, accident/Incident that results in injury, illness, disease, damage or loss at workplace.

- **Business development risks-**

These risks include failure of business strategies, product diversification, marketing strategies, competition, etc.

- **Market risks-**

These risks include changes in share price of the Company, EPS, PE Ratio and other financial ratios.

- **Risk of Unutilized Capacity-**

These risks rise due to seasonal demand of some products.

- **Product Quality Risks-**

These risks include liability on account of supply of low/ poor quality products in the market by the company.

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

8. RISK MITIGATION

- The risk mitigation can be planned using the following key strategies:

a) Risk Avoidance/ prevention: By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain in opportunities that accepting the risk may have allowed.

b) Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.

c) Risk Reduction/ control: Employing methods/solutions that reduce the severity of the loss

d) Risk Retention/ acceptance: 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 over time than the total losses sustained. All risks that are not avoided or transferred are retained by default.

9. RESPONSIBILITY FOR RISK MANAGEMENT

Generally every member of management 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.

10. ACCOUNTING RECORDS/ FINANCIAL STATEMENTS

The Company must keep accounting records which are sufficient to show and explain its transactions and to disclose with reasonable accuracy, at any time, the financial position of the company at that time and to ensure that accounting records prepared by the company comply with the requirements of the applicable statutes.

The accounting records/ financial statements of the Company must give a true and fair view of the state of affairs of the company and be presented fairly in all material respects so as to show, the profit or loss of the Company for the period covered by the accounts, the balance sheet at the end of the period, the statement of changes in equity and the cash flow statement for the period along with a summary of significant accounting policies & other explanatory information. The statements should report probable losses incidental to the risks. It must also comply with other requirements of the Companies Act and applicable Accounting Standards / Ind-AS.

11. COMPLIANCE AND CONTROL

Although the Board retains responsibility for assessing the effectiveness of the Company's systems for management of material business risks and all the Senior Executives under the guidance of the Managing Director. The Board of Directors have the responsibility for over viewing management's processes to identify, assess and monitor risks associated with Organisation's business operations and the implementation/maintenance of policies & control procedures to give adequate protection against key risks, wherein the Senior Executives consider and assess the appropriateness and effectiveness of management information and other systems of internal control, the Company has constituted a Risk Management Committee for identification, assessment, evaluation, prevention, control & mitigation of risks and/or to perform such other functions as specified in part D of schedule II of SEBI (LODR) Regulations, 2015.

12. RISK MANAGEMENT PROCESS

The Risk Management Process will enable the identification, assessment, monitoring and management of material risk throughout the group. It consists of eight interrelated components:

- Internal Environment - which involves setting the foundation for how risk and control are viewed and addressed by the members of Company's management;

- Objective Setting - which involves ensuring that management has a process in place to set objectives and that the chosen objectives align with the Company's mission and vision;

- Event Identification - which includes identifying internal and external factors that influence how potential events may affect strategy implementation and achievement of objectives;

- Risk Assessment - which requires an analysis of identified risks in order to form a basis for determining how they should be managed;

- Risk Response - which requires management to select an approach or set of actions to mitigate risks, where appropriate, taking into account the Company's risk profile;

- Control Activities - which include the establishment and execution of policies & procedures to ensure that the risk responses management selected are effectively carried out;

- Information and Communication - which requires relevant information to be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities; and

- Monitoring - which requires that the Risk Management Process be monitored, and modifications be made as necessary, to ensure the system can react dynamically and change as conditions warrant.

13. RISK AVOIDANCE / MINIMIZING MEASURES

- The company has four manufacturing facilities, strategically located in different states to mitigate the raw- material availability risks and to cater to vide spread customer base. The locations of the units have been selected on the basis of availability of raw-material in that particular state/ region to ensure timely procurement at the best available price. It also addresses the risk of non- availability of raw- material during off season and undue long storage resulting in deterioration of its quality.

- The company operates in a competitive market and expects the competition to increase further in the future. It always strive meet the challenges and avoid competition risks by satisfying our customers by offering wide range of products to them with good quality and within the committed time frame with best services and after sales services.

- The company deals with elite customer base in various sectors like food & beverages, pharma & healthcare, FMCG, paper, textile, cattle/ poultry feed, spread across different states of the country to mitigate the concentration/ sectoral risks.

- Company always tries to remain vigilant on raw- material front and maintains appropriate/ adequate level of stocks to ensure un-interrupted running of its operations.

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

- The foreign exchange fluctuation risks are controlled by a mechanism of "Stop Loss" which means the Company goes for hedging (forward booking) on open position when actual exchange rate reaches a particular level as compared to transacted rate. However, the company does not have significant foreign exchange exposure.

- The company keeps various insurance covers from reputed insurance companies to keep the company's assets, properties, materials and human resource adequately insured, to mitigate the natural calamities risks.

14. COMPLIANCE & CONTROL

The Company has set up a policy, which includes review and assessment of the risk management system and risk profile for both financial and non financial risks. The company also has an effective internal audit function, independent of the external auditors, to review the effectiveness of the risk management system.

Audit Committee of the Board oversees the risk management and internal control systems. This system is designed to identify, assess, monitor and manage any material change to the Company's risk profile from time to time. Further, the company has constituted a Risk Management Committee.

15. RISK MANAGEENT COMMITTEE

As per Regulation 21 of the SEBI (LODR) Regulations, 2015, the Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director. The Members of the Committee shall meet atleast twice in a year the meetings 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 quorum for the meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including atleast one member of the board of directors in attendance.

Accordingly the Board of Directors of the company has constituted the Risk Management Committee of the company with three directors i.e. Managing Director, Executive Director & CFO, One Independent Director and two senior executives/ officers of the company not below the level of Unit Heads/ Heads of Profit Centers, as the members of the committee.

Such Committee will report to the Audit Committee/ the Board of Directors from time to time.

16. ROLES & RESPONSIBILITIES OF THE RISK MANAGEMENT COMMITTEE

The Risk Management Committee shall carry out the below roles and responsibilities, which may be assigned by the Board of Directors of the Company based on the recommendation of Audit Committee and/or provided under part D of schedule II of SEBI (LODR) Regulations, 2015:

a. To ensure adequacy of internal control to manage risks across the Organization.

b. To ensure the implementation and compliance with the risk management policy of the company.

c. To define/ review the risk management policy framework and process and advised the Board/ Audit Committee any amendment/ modification required in the policy.

d. To formulate a framework for identification of internal and external risks specifically faced by the Company, 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.

e. To take measures for risk mitigation and business continuity plan.

f. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;

g. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;

h. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;

i. To promote and implement monitoring of risk management strategies and policies.

j. To monitor and review the cyber security and related risks.

k. To keep the Board of Directors/ Audit Committee informed about the nature and content of its discussions, recommendations and actions to be taken.

l. To appoint, remove and fix the remuneration of the chief risk officer (if any).

m. Powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of any outside professional/ advisor with relevant expertise, if it considers necessary.

17. <u>REVIEW/ MODIFICATION</u>

This Policy shall be reviewed/ amended/ modified at periodic intervals as may be deemed fit by the Board of Directors of the company or as advised by the Risk Management Committee/ Audit Committee to ensure that it meets the requirements of legislation and the needs of the organization. Any subsequent amendment in the listing regulations or other applicable laws in the above regard shall automatically apply to this policy.

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