



VIGNYAN INDUSTRIES LIMITED
TARIKERE

RISK MANAGEMENT POLICY

1. INTRODUCTION:

M/s. Vignyan Industries Limited (VIL) was incorporated on 25.09.1963 by two individual promoters. M/s BEML Limited, the holding company, took over the management during October 1984 upon its acquiring 69% of the paid-up share capital of the Company. Presently, 96.56% of the paid-up capital of the Company is held by BEML. The Company manufactures steel castings suitable for engineering, mining, railways and infrastructure industries.

VIL has single manufacturing facility located in Tarikere to produce steel castings of various specifications and supply mainly to M/s BEML Limited, the holding company.

Risk management is attempting to identify and then manage the potential threats that could severely impact or bring down the organization. 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.

VIL recognizes the benefits of an integrated approach to risk management as it understands that the company is exposed to a number of external and internal risks which may affect its financial and non-financial results. This creates the need for Enterprise Risk Management (ERM) system to ensure minimal effect of the risks on VIL.

The Department of Public Enterprises, Ministry of Heavy Industries, Government of India has issued the 'Guidelines on Corporate Governance for Central Public Sector Enterprises-2010', which has been made mandatory for all CPSEs w.e.f. 14.05.2010. The said guidelines provide for 'Risk Management' in Para 3.6 under Chapter 3 as under:

“3.6 Risk Management

Enterprise risk management helps management in achieving CPSE's performance and profitability targets. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences. Considering the significance of risk management in the scheme of corporate management strategies, its oversight should be one of the main responsibilities of the Board/Management. The Board should ensure the integration and alignment of the risk management system with the corporate and operational objectives and also that risk management is undertaken as a part of normal business practice and not as a separate task at set times.”

Further, in terms of Para 7.3 of the DPE Guidelines, the Company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

As per the Companies Act, 2013, a report by its Board of Directors attached to the statement of annual accounts in the annual general meeting should contain a statement indicating the development and implementation of Risk Management Policy for the company including element of risks, if any, which in the event, may threaten the existence of the company.

Accordingly, it has therefore become mandatory for Vignyan Industries Limited (VIL), a non-listed CPSE, 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 organisation.

1.2 Risk Management Policy philosophy:

VIL recognizes that it is exposed to a number of uncertainties, which are inherent for the engineering sector that it operates in. The dynamic nature of economy exposes the Company to various external and internal risks which may affect its financial and non-financial results. VIL has developed Risk Management Policy to consider various risks in developing the strategies and objectives. It shall further help VIL to manage or mitigate risks in day to day operations to achieve those objectives.

1.3 Scope of the Policy:

The policy guidelines are devised in the context of organization's growth objectives, business profile envisaged and new business endeavours that may be necessary to achieve these goals and the emerging global standards and leading practices amongst comparable organizations.

The **Scope of the Policy** shall cover:

- All functions and departments
- All events, both external and internal which shall have an impact on the business objectives of the organization.

1.4 Objectives of the Policy:

The main objective of this Policy is to ensure sustainable business growth with stability and to promote a pro-active approach in identifying, evaluating, reporting and managing or mitigating risks associated with the Company's business. In order to achieve the key objectives, this Policy establishes a structured and disciplined approach to Risk Management, in order to manage or mitigate 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, minimized, managed and appropriately mitigated..
- To establish a framework for the company's risk management process and to ensure its implementation.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- To ensure business growth with financial stability.

1.5 Applicability:

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

1.6 Key Definitions:

- **Enterprise Risk Management**
COSO's (Committee of Sponsoring Organisation of Treadway Commission) integrated framework defines ERM as:

"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

- **Risk –**
One of the standard definitions of risk accepted worldwide in the domain of enterprise risk management has been framed by Committee of Sponsoring Organization of Treadway Commission (COSO) as a part of its 'Enterprise Risk Management – Integrated Framework' defines risk as:

Risk is the possibility that an event will occur and adversely affect the achievement of objectives.'

According to ISO 31000 standards, risk is the "effect of uncertainty on objectives" where an effect is a positive or negative deviation from what is expected in line with the above leading practices risk at VIL is defined as *'the possibility that an event will happen and adversely impact achievement of VIL's objective'*.

- **Risk Owner**
Risk Owner is the person with the accountability and authority to manage a 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 Treatment**

Risk treatment determines the way to deal with risk. Various mechanisms to treat risk are:

I. Risk avoidance/ termination – decision not to become involved in, or action to withdraw from, a risk situation.

II. Risk transfer – sharing with another party the burden of loss or benefit or gain, for a risk.

III. Risk reduction/ mitigation – actions taken to lessen the probability, negative consequence, or both, associated with a risk.

IV. Risk acceptance/ retention – the acceptance of the burden of loss or benefit or gain, for a risk.

- **Risk Register**

A 'Risk Register' is a document for recording the risks in a standardized format.

2. RISK GOVERNANCE:

2.1 Risk Governance Structure:

A well-defined risk governance structure serves to communicate the approach of risk management throughout the organization by establishing clear allocation of roles and responsibilities for the management of risks on a day to day basis. In order to develop and implement a Risk Management framework, a Risk Assessment Committee has been constituted.

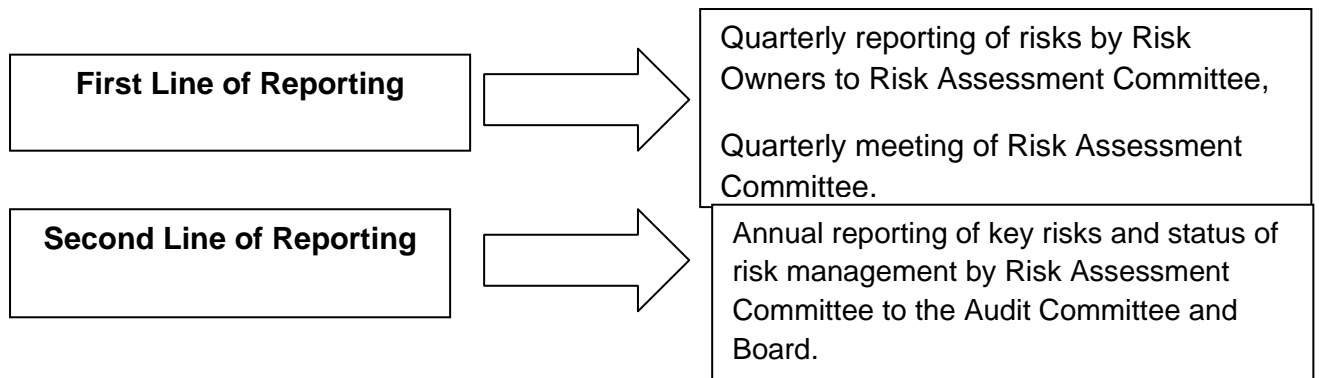
Risk owners shall be Section/Department Heads of respective function who shall identify and assess the key risks, ensure risks are managed on a daily basis, ensure risk register are maintained and updated on a monthly basis, and report the risks along with assessment and mitigation of their respective function to the Risk Assessment Committee.

The Risk Assessment Committee shall comprise of the following members –

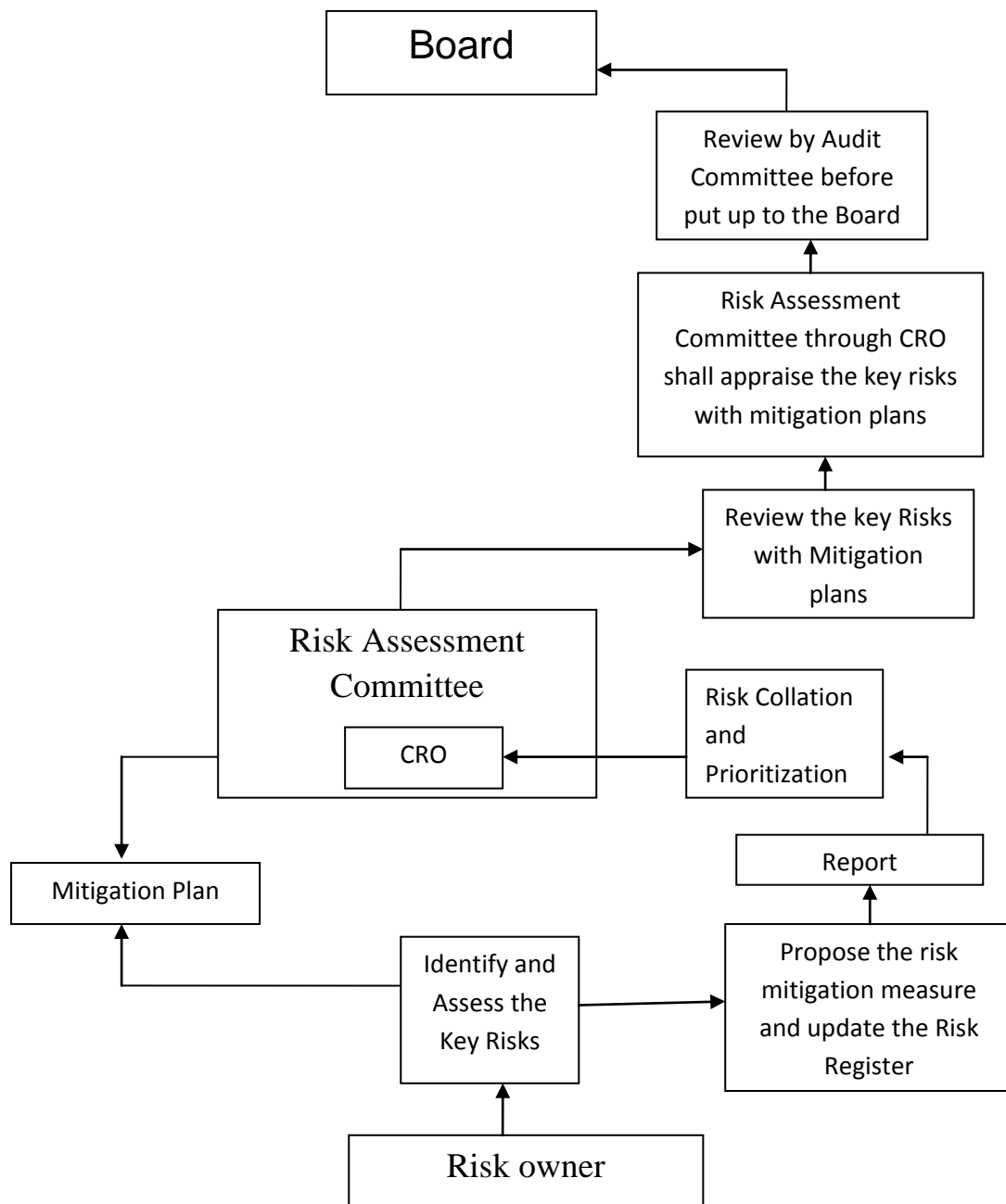
Chief Risk Officer (Head of the Unit),
Factory Manager/Production Head,
Planning Head
Finance Head, and
HR Head

Risk Assessment Committee shall ensure establishing and managing the implementation of Risk Management Policy, review the organisation's risk profile periodically and ensure that effective risk mitigation plans are put in place and the results are evaluated and acted upon, report the key business risks faced by the organisation and their mitigation plans to the Audit Committee and Board.

2.2 Risk Reporting Structure:



2.3 Risk Reporting and Escalation Process:



3 RISK MANAGEMENT APPROACH:

3.1 Process

Risk Management Process is to ensure that:

- Risks faced by the organization shall be identified and recorded in the risk register, enabling the top management to take a comprehensive view of the same
- Risks identified shall be assessed, mitigated, monitored and reviewed on an ongoing basis.
- Risk management processes should be integrated with other planning processes and management activities.

3.2 Steps in Risk Management

Risk management is a shared responsibility. Generally every staff member of the Organisation is responsible for the effective management of risk including the identification of potential risks. The risk management process model includes the following key activities, performed on a continuous basis:

3.2.1 Risk Identification

This involves continuous identification of events that may have negative impact on the Company's ability to achieve goals. Processes have been identified by the Company and their key activities have been selected for the purpose of risk assessment. Identification of risks, risk events and their relationship are defined on the basis of discussion with the risk owners and secondary analysis of related data, previous internal audit reports, information from competition, market data, Government Policies, past occurrences of such events etc.

3.2.2 Risk Categorisation

All the risks that have been identified shall be categorised under the following risk categories -

- **Strategic Risk** - Risk of loss resulting from business factors. These risks adversely affect the achievement of strategic objectives and may impair overall enterprise value.
- **Operational Risk** - Risk of loss resulting from inadequate or failed processes, people and information systems.
- **Reporting Risk** - Risk of inadequate internal or external reporting due to wrong financial as well as non-financial information in the reports
- **Compliance Risk** - Risk of loss resulting from legal and regulatory factors

3.2.3 Risk Classification

All the risks that have been identified shall be further classified into following types to help VIL n prioritizing the risks

- **Asset Risk**- Risk of loss resulting from depreciation, under-utilisation or loss of control over physical assets of the Company.
- **Competition Risk** – Risks pertaining to the external competitors of the company such as entry of new competitors, FDI etc

- **Compliance Risk** - Risk of loss resulting from legal and regulatory factors, such as strict privacy legislation, compliance laws, and intellectual property enforcement.
- **Contract Risk** – Risks pertaining to the contracts signed with client and subcontractors.
- **Contractor/ Vendor Risk** – Risks originating from company's relationship and dependence on third party vendors, contractors or outsourcing partners.
- **Environmental Risk** – Risks having implications on the environment, weather, pollution or risks arising due to changes in environment.
- **Expense Risk** – The risk of a change in value caused by the fact that the timing and/or the amount of expenses incurred differs from those expected, e.g. assumed for pricing basis.
- **Financial Risk** - All risks which have a financial implication such as adverse movements in foreign exchange rates, capital expenditure etc.
- **Foreign environment risk** - The risk arising due to exposure to foreign laws, regulation and socio-political environment.
- **Litigation Risk** - Risk of loss arising out of litigations against or litigation initiated by the company
- **Market Risk** – Risks pertaining to external market factors such as demand uncertainty, price volatility etc
- **People Risk** - Risks (like attrition) that are part of the personnel related processes of the company such as recruitment, skill sets and performance measurement.
- **Process Risk/ Execution Risk** – The risk arising due to lack of adequate process or inadequate execution of defined processes.
- **Project Risk** – Risks which impacts the execution of any project resulting in time and cost overrun.
- **Regulatory/Political Risk** - The risk arising due to change in regulatory policy of the country
- **Reporting Risk** - Risk of inadequate internal or external reporting due to wrong financial as well as non-financial information in the reports.
- **Reputation Risk** – Risks having implications on the brand and reputation of the company.
- **Technology Risk** – Risks originating from usage and deployment of technology in the organisation in its operations and management such as product obsolescence because of technology gap.

3.2.4 Risk Assessment

Risk assessment allows an entity to consider the extent to which potential events have an impact on achievement of objectives. Management should assess events from two perspectives – likelihood and impact.

Risk rating is the result of the product of impact and likelihood of occurrence of a risk with the consideration of controls in place.

The risks identified will be evaluated by their likelihood and impact parameters as per the following methodology:

	1	2	3	4	5
Parameter	Insignificant	Low	Medium	High	Very High
Revenue	Impact less than 3 crores of Target Revenue	Impact between 3-5 crores of Target Revenue	Impact between 5-8 crores of Target Revenue	Impact between 8-10 crores of Target Revenue	Impact greater than 10 crores of Target Revenue
Gross Operating margin	Impact less than 30 lakhs on Target GOM	Impact between 30 - 50 lakhs on Target GOM	Impact between 50-80 lakhs on Target GOM	Impact between 80-100 lakhs on Target GOM	Impact greater 100 lakhs on Target GOM
Average no. of days of inventory	Impact less than 5 days on targeted Inventory days	Impact between 5-10 days on targeted Inventory days	Impact between 10-20 days on targeted Inventory days	Impact between 20-30 days on targeted Inventory days	Impact greater than 30 days on targeted Inventory days
Average Collection Period of Trade Receivables	Impact less than 5 days on targeted Trade Receivables days	Impact between 5-10 days on targeted Trade Receivables days	Impact between 10-20 days on targeted Trade Receivables days	Impact between 20-30 days on targeted Trade Receivables days	Impact greater than 30 days on targeted Trade Receivables days
Increase in Vendor Base	More than 5 Vendors	Between 4-5 vendors	Between 3-4 vendors	Between 1-3 vendors	Less than 1 vendor
CAPEX	Expenditure less than 10 lakhs	Expenditure between 10-30 lakhs	Expenditure between 30-50 lakhs	Expenditure between -50-70 lakhs	Expenditure more than-70 lakhs
Quality Management	Rejections less than 1% of sales	Rejections between 1-1.5% of sales	Rejections between 1.5-2% of sales	Rejections between 2-3% of sales	Rejections more than 3% of sales
Non - Compliance to Legal and Regulatory requirement	Minimal or No Impact	Minimal Impact with Warning or show cause notice	Moderate compliance failures detected, minor penalties	Major compliance failures detected, heavy penalties	Summon by any court or statutory authority.
Human Resource- Employee attritions	Attrition less than 1 at key positions/skill levels	Attrition between 1-2 at key positions/skill levels	Attrition between 2-3 at key positions/skill levels	Attrition between 3-4 at key positions/skill levels	Attrition more than 4 at key positions/skill levels

3.2.5 Risk Analysis

Risk Analysis is to be conducted using a risk matrix for likelihood and Impact, taking the existing controls into consideration. Risk events assessed as “high” or “very high” may go into risk mitigation planning and implementation; low and medium risk to be tracked and monitored on a watch list.

The Risk Reporting Matrix below is typically used to determine the level of risks identified.

Risk Measurement Score (Likelihood)	Classification	Likelihood
1	Rate	Has not occurred / can occur in exceptional cases
2	Unlikely	Event has occurred remotely in past / is not expected but may happen
3	Possible	Periodic occurrence OR (<1 per year) / Event has possibility to occur in the year
4	Likely	Annual occurrence / Event to occur very likely
5	Almost Certain	More than once in a year/ It is almost certain that event will occur

Risk Exposure = Business Impact X Likelihood

3.2.6 Risk Mitigation Strategy

Risk mitigation options viz. risk avoidance, risk reduction, risk acceptance and risk transfer are considered in determining the suitable risk mitigation strategy. For the risk mitigation steps, the cost benefit analysis needs to be evaluated. Action plans supporting the strategy are recorded in a risk register along with the timelines for implementation.

3.2.7 Control and Monitoring Mechanism

The Risk Assessment Committee is the key group which shall work on an ongoing basis within the risk management framework outlined in this policy to mitigate the risks to the organization’s business as it may evolve over time.

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risks with their mitigation measures shall be updated on a regular basis.

4. OPERATION OF RISK MANAGEMENT POLICY

4.1 Approval of the Policy

VIL Board at its 301st meeting held on 16.09.2017 Approved the Company’s Risk Management Policy. The Risk Assessment Committee shall monitor the compliance of the Risk Management Policy and any amendments there to from time to time.

4.2 Review of the Policy

The risk management policy shall be reviewed mandatorily every three years based on changes in the business environment / regulations / standards / best practices in the industry. However, in case of exigency, the same may be reviewed earlier also.

4.3 Maintenance of Risk Register

Respective Risk register with their mitigation plan shall be maintained by Risk owners and the office of CRO shall consolidate the same and present it to Risk Assessment Committee and the same shall be reviewed and updated as per the policy guidelines. The key risks with their mitigation measures identified and reviewed for the organization are defined in the Risk Register.

DISCLAIMER CLAUSE

The Management cautions readers 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.