# HFCL LIMITED

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**RISK MANAGEMENT POLICY**

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**Owner:** Corporate Secretarial Department

**BACKGROUND**

This document lays down the framework of Risk Management at HFCL Limited (hereinafter referred to as the ‘Company’) and defines a 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.

Oxford Dictionary defines the term “risk” *as a chance or possibility of danger, loss, injury or other adverse consequences.*

Risk management is attempting to identify and then manage 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.

**Definitions:**

**Risk:**

Risks are the events or conditions that may occur and whose occurrence, if does take place has a harmful or negative impact on the achievement of Organization business objectives. The exposure to the consequences of the uncertainty constitutes a risk.

**Risk Assessment:**

The systematic process of identifying and analyzing risks. Risk Assessment consist of detailed study of threat and vulnerability and resultant exposure to various risks.

**Risk Mitigation:**

Risk mitigation is the practice of reducing the impact of potential risks by developing a plan to manage, eliminate, or limit setbacks as much as possible.

**Risk Management:**

Risk Management is the systematic application of management policies, procedures and practices to the task of establishing the context, identifying, analyzing, evaluating, treating, monitoring & communicating risks.

**Risk Management Process:**

Risk Management process can be defined as identification, assessment, mitigation and prioritization of risk followed by coordinated and economical application of resources to minimize, monitor & control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

**Risk Management Committee (RMC):**

The Company shall form the Risk Management Committee of the Company as per the provisions of Regulation 21 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

**Audit Committee:**

Audit Committee is the Committee of Board of directors of the Company constituted under the provisions of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

**Board of Directors:**

"Board" in relation to a Company, means the collective body of Directors of the Company as defined under section 2(10) of the Companies Act, 2013.

"**Policy**" means Risk Management Policy.

**RISK STRATEGY**

The Company recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. The Company believes that the Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering a forward contract.
- Reduced, by having effective internal controls in place.
- Avoided, by not entering risky businesses.
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and
- Shared, by following a middle path between retaining and transferring risk.

**OBJECTIVES OF THE POLICY:**

The objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risk associated with the business. The following are the strategic objectives:

- Achieving the strategic objective while ensuring appropriate management of risks.
- Ensuring the protection of stakeholder's value.
- Providing a framework that enables future activities to take place in a consistent and controlled manner.
- Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/threats.
- Contributing towards more efficient use/allocation of the resources within the organization.
- Protecting and enhancing assets and Company image.
- Maintaining high standards of corporate governance and public disclosures.

- Ensuring stricter adherence to policies, procedures and laws/rules/regulations/standards.
- Establishing the ownership throughout the Organization and embedded risk management as integral part of business rather than standalone system.
- Helping the decision maker of the Organization explicitly take account of uncertainty, the nature of that uncertainty and work towards the solution to address it.
- Ensuring that all the current and expected risk exposures of the organization are identified, analyzed and appropriately managed.
- Enabling compliance with the relevant legal and regulatory requirements and international norms.
- Assuring demonstrable achievement of objectives and improvement of financial stability of the Organization.

**SCOPE & EXTENT OF APPLICATION**:

The policy guidelines are devised in the context of the present business profile, future growth objectives and new business endeavors/ services that may be necessary to achieve the goals & the emerging global standards & best practices amongst the comparable organizations. This policy covers all the events within the Organization & events outside the Company which have a bearing on the Company's business.

**LEGAL FRAMEWORK:**

Risk Management Policy is framed as per the following regulatory requirements:

**A. COMPANIES ACT, 2013**

1. Provisions of the Section 134(3)

There shall be attached to financial statements laid before a company in general meeting, a report by its Board of Directors, which shall include:

*(n) 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.*

2. Provisions of Section 177(4)

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include:

*(vii) evaluation of internal financial controls and **risk management systems.***

3. SCHEDULE IV [Section 149(8)] CODE

FOR INDEPENDENT DIRECTORS

II. Role and functions: The independent directors shall:

*(1) 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.*

*(4) satisfy themselves on the integrity of financial information and that financial controls and the systems*

*of **risk management** are robust and defensible.*

**B. SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

**Regulation 4(2)(f)(ii):** The Board of Directors of the listed entity shall have the following responsibilities:

*(ii) key functions of the board of directors:*

*(1) Reviewing and guiding corporate strategy, major plans of action, **risk policy**, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.*

*(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for **risk management,** financial and operational control, and compliance with the law and relevant standards.*

**Regulation 17(9):**

*(a) the listed entity shall lay down procedures to inform members of board of directors about **risk assessment and minimization procedures**.*

*(b) the board of directors shall be responsible for framing, implementing and monitoring the **risk management plan** for the listed entity*

**Regulation 21: Risk Management Committee**

*(1) The board of directors shall constitute a Risk Management Committee.*

*(2) The Risk Management committee shall have minimum three members with majority of them being members of board of directors, including at least one independent director and in the case of listed entity having outstanding SR equity shares, at least two third of Risk Management Committee shall comprises independent directors.*

*(3) The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.*

*(3A) The risk management committee shall meet at least twice in a financial year.*

*(3B) The quorum for meetings of Risk Management Committee shall be either two members or one third of members of committee, whichever is higher, including at least one member of board of directors in attendance.*

*(3C) The meetings of risk management committee shall be conducted in such a manner that on a continuous basis not more than two hundred and ten days shall elapse between two consecutive meetings.*

*(4) The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit such function shall specifically cover cyber security:*

*Provided that 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 (Listing Obligations and*

*Disclosure Requirements) Regulations, 2015.*

*(5) The provisions of this regulation shall be applicable to:*
*i. the top 1000 listed entities; and,*
*ii. a 'high value debt listed entity'.*

*(6) 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.*

**Schedule II: Part C: Role of the Audit Committee and review of information by Audit Committee:**

***A(11)*** *Evaluation of internal financial control and* ***risk management system.***

*Schedule I Part D: ROLE OF COMMITTEES (OTHER THAN AUDIT COMMITTEE)*

**Constitution of Risk Management Committee**

The Company has constituted a Risk Management Committee with majority of members of the Board of Directors with overall responsibility of overseeing and reviewing risk management across the Company.

The terms of reference of Risk Management Committee are as follows: -

*(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 coordinate 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*

**APPLICABILTY**

This Policy shall come into force with effect from 1st April 2019.

**POLICY**

Before proceeding to the Policy, attention is drawn to the roles that the Risk Management Committee and the Board of Directors are required to play under the above regulations governing Risk Management:

The Board's role is to ensure framing, implementing and monitoring risk management plan, having in place systems for risk management as part of internal controls with duty being cast upon Independent Directors to bring unbiased angle to the Board's deliberations on making risk management systems more robust.

Risk Management Committee and Audit Committee's role is evaluation of the risk management system.

**BROAD PRINCIPLES:**

The Board has to review the business plan at regular intervals and develop the Risk Management Strategy which shall encompass laying down guiding principles on proactive planning for identifying, analyzing and mitigating all the material risks, both external and internal viz. Environmental, Business, Operational, Financial and others. Communication of Risk Management Strategy to various levels of management for effective implementation is essential.

Risk Identification is obligatory on all vertical and functional heads who with the inputs from their team members are required to report the material risks to the Managing Director (MD) along with their considered views and recommendations for risk mitigation.

Analysis of all the risks thus identified shall be carried out by MD through participation of the vertical/functional heads.

The following steps to be taken:

**Risk identification:** To identify organization's exposure to uncertainty. Risk may be classified in the following:

i) Economic environment and market conditions
ii) Fluctuations in foreign exchange
iii) Political environment
iv) Competition
v) Revenue concentration
vi) Inflation and cost structure
vii) Technological obsolescence
viii) Financial reporting risks
ix) Legal risks

**Risk Description:** To display the identified risks in a structured format:

| | |
|---|---|
| Name of Risk | |
| Scope of Risk | Qualitative description of events with size, type etc. |
| Nature of Risk | |
| Quantification of Risk | High, Medium, Low etc. |
| Risk Tolerance/Appetite | Loss potential and financial impact of risk |
| Risk Owner | |
| Risk treatment and control mechanism | |

| | |
|---|---|
| Potential action for improvement | Recommendation to reduce risks |

**Risk Evaluation:**

After risk analysis, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks and whether each specific risk to be accepted or treated.

**Risk Estimation:** Can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences.

Impact level on performance/profit – Both Threats and Opportunities

**Reporting:**

1. Internal Reporting
   a) Risk Management Committee
   b) Board of Directors
   c) Vertical Heads
   d) Individuals

2. External Reporting

To communicate to the stakeholders on regular basis as part of Corporate Governance.

**Development of Action Plan**

The Risk Management Committee shall not only assist in implementation of the Risk Management Plan of the Board but also monitor its implementation and review. The members of the Risk Management Committee shall discharge the role of "Think Tank", ideate and bounce off their collective suggestions to the Board for periodic updating of the Risk Management Plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses HFCL is engaged in or shall undertake.

**Guidelines to deal with the risks**

Business Plan including Capital Expenditure and Fund Flow Statement for each segment together with SWOT analysis, data on Production Planning, Materials Management, Sales and Distribution, Delivery Schedules, Assets, Accounts Receivables and Payables as well as Regulatory Regime applicable shall be reviewed in the light of the material risks identified. Through deliberations of the Committee a comprehensive plan of action to Risk Management Policy of the Company deals with the risks shall be developed and guidelines flowing from such plan shall be communicated to the employees concerned for mitigation of the risks.

**Board Approval**

The Action Plan and guidelines decided by the Risk Management Committee, shall be approved by the Board before communication to the personnel for implementation.

The Board shall approve the Risk Management (including Risk Treatment) strategy, control structure and policy guidelines and delegate authority and accountability for risk management to the Company's executive team.

The guidelines shall include prescription on:

**Risk Treatment**

Treatment of Risk through the process of selecting and implementing measures to mitigate risks. To prioritize risk control actions in terms of their potential to benefit the organization. Risk treatment includes risk control/ mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc. for:

a) Effective and efficient operations
b) Effective Internal Controls
c) Compliance with laws and regulations

Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

**Risk Registers**

Risk Registers shall be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Risk Managers and Risk Officers to be identified for proper maintenance of the Risk Registers which will facilitate reporting of the effectiveness of the risk treatment to the Risk Management Committee, and/or the Board.

Enterprise Risk Planning (ERP/SAP package) shall play a key role in timely availability of all data/reports required for the Committee to develop the Action Plan as stated above.

The Board shall have the discretion to deal with certain risks (may be called Key or Highly Sensitive Risks) in the manner it may deem fit. Mitigation of such Highly Sensitive/Key risks and effectiveness of their mitigation measures and review of the strategy may be directly discussed by the Board members with the Risk Management Committee.

**KEY RESPONSIBILITIES OF RISK UNIT OWNERS:-**

- Identification of new risks
- Reviewing and discussing significant risk issues and ensuring horizontal collaboration in the development of mitigation strategies and the establishment of corporate priorities in resource allocation
- Reporting new risks or failures of existing control measures with remedial action.
- Keeping the risk registers and related action plans updated
- Educating employees dealing with key activities in their unit of the risk management process
- Ensuring Management Action Plans developed in response to audit, and evaluation recommendations adequately address the risks identified
- Providing management with information about the organization's controls and determining which controls should be in place to adequately lower the overall risk profile of various critical processes

**INTEGRATION OF RISK MANAGEMENT STRATEGY**

The Company's risk management strategy is to be integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aide in establishing competitive advantage and allow management to develop reasonable assurance regarding the achievement of the Company's objectives.

**PENALTIES**

The penalties are prescribed under the Companies Act, 2013 (the Act) under various sections which stipulate having a Risk Management Framework in place and its disclosure.

Section 134(8) of the Act: If a company is in default in complying with the provisions of this section, the company shall be liable to a penalty of three lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.

There are other provisions of the Act as well as SEBI Act which stipulate stiff penalties. Therefore, this Policy prescribes that violation of the provisions applicable to Risk Management Framework is something the Company cannot afford to risk.

**REVIEW**

This Policy shall evolve by review by the Risk Management Committee and the Board of Directors, from time to time, as may be necessary.

This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.

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