

# **Risk Management Policy**

## **KAJARIA CERAMICS LIMITED**

### **1. BACKGROUND AND IMPLEMENTATION**

Kajaria Ceramics Limited is a Company prone to inherent business risks like any other organization. This document is intended to formalize a risk management policy the objective of which shall be identification, evaluating, monitoring and minimizing identifiable risks. This is in compliance with clause 49 of the listing agreement which requires the Company to lay down the procedure about risk assessment and risk minimization.

### **2. GUIDING PRINCIPLES**

In order to fulfil the objectives of this policy and lay a strong foundation for the development of an integrated risk management framework, the policy outlines the following guiding principles of Risk Management:

- I. All business decisions will be made with the prior information and acceptance of risk involved.
- II. The Risk Management Policy shall provide for the enhancement and protection of business value from uncertainties and consequent losses.
- III. All employees of the company shall be made aware of risks in their respective domains and their mitigation measures.
- IV. The risk mitigation measures adopted by the company shall be effective in the long-term and to the extent possible be embedded in the business processes of the company.
- V. Risk tolerance levels will be regularly reviewed and decided upon depending on the change in company's strategy.
- VI. The occurrence, progress and status of all risks will be promptly reported and appropriate actions be taken thereof.

### **3. DEFINITIONS**

#### **I. AUDIT COMMITTEE**

Audit Committee constituted under the provisions of Companies Act, 2013 and Listing agreement.

#### **II. BOARD OF DIRECTORS OR BOARD**

Board means the collective body of Directors of the Company.

#### **III. POLICY**

Policy means Risk Management Policy.

#### **IV. RISK**

Risks are 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.

#### **V. RISK MANAGEMENT**

Risk Management is the process of systematically identifying, quantifying, and managing all risks and opportunities that can affect achievement of a corporation's strategic and financial goals.

#### **VI. RISK STRATEGY**

The Risk Strategy of a company defines the company's standpoint towards dealing with various risks associated with the business. It includes the company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the company.

### **4. OBJECTIVES**

The primary objectives of the risk management system at the Company are:

- I. To ensure protection of shareholder value through the establishment of an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks.
- II. Identification, analysis and appropriate treatment of all major sources of potential opportunity for and harm to the Company (both existing and potential)
- III. To balance the risk and reward trade off;
- IV. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed.
- V. To establish a framework for the company's risk management process and to ensure companywide effective implementation
- VI. To ensure systematic and uniform assessment of risks related with construction projects and operational power stations
- VII. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices
- VIII. To assure business growth with financial stability.

### **5. TYPES OF RISKS AND THEIR MINIMIZATION PROCESS:**

Risk Minimisation process of the risks attributable to the Company is as follows:

#### **I. Operational Risk**

Operational Risks are those risks which are associated with operational uncertainties.

In order to minimize the risk, the management regularly monitors and ensure the uninterrupted supply of raw material, fuel, continuance maintenance, the proper logistic

solutions and take care all other ancillary and incidental risks which may arise from time to time.

## **II. Compliance risk**

Compliance risks are associated with the need to comply with laws and regulations. They also apply to the need to act in a manner which investors and customers expectation. Risks arising from non-compliance with existing laws and regulations or the potential adverse impact of a change in rules and regulations, e.g. Health & Safety, Environmental, Labour Laws, Concession and Permit requirements, etc. In order to mitigate the compliance risk, a compliance certificate is taken quarterly from the various heads of departments.

## **III. Concentration risk**

In order to mitigate risk of putting all eggs in one basket, we derive our revenues from multiple products, various customers across geographic regions and industry domains. Thus we shall endeavor to remain diversified while still remaining focused on the tile manufacturing.

## **IV. Competition risk**

We operate in a highly competitive market and expect competition to increase further in the future. We always strive meet the challenges by satisfying our customers by offering wide range of products with the right quality at right time and with better services and after sales services.

## **V. International operations risk**

For meeting such risk we shall avoid high-risk countries.

## **VI. Insurance**

In order to reduce and mitigate identifiable risks, we shall have various insurance covers from reputed insurance companies and shall keep the company's properties and insurable interests insured. Besides wherever it is cost-effective we shall also hedge against the loss of profit by taking appropriate Insurance cover.

## **VII. Credit risk**

We shall have laid down extensive norms related to credit period and payment terms and device a credit approval process. In addition to continuously appraising our

existing and new customers, we shall have an internal rating mechanism, which seeks to rate/classify existing and new customers. The mechanism shall assign respective grading on the basis of which credit period, payment and other terms shall be decided.

### **VIII. Treasury/foreign exchange risk**

We continue to expand our business globally. Managing the risks from foreign currency rate fluctuations is the prime function of our finance and Import & Export department. The Company's exports provide a natural hedge for mitigating exchange risk related to imports. We shall always keep a close watch on forex market and its trend and do daily review and analysis and take positions accordingly.

## **6. RISK MANAGEMENT PROCESS**

The process of managing the Risk includes the following:

### **A) Identifying and Evaluating the Risks**

A risk description helps in understanding the nature and quantum of risk and its likely impact and possible mitigation measures. The suggested points for describing a risk are provided below:

1. Name of Risk
2. Scope of Risk
3. Nature of Risk
4. Stakeholders Interest
5. Quantification of Risk
6. Tolerance and Trigger
7. Treatment & Control Mechanisms
8. Potential Action for Improvement
9. Strategy and Policy Developments

### **B ) Handling/Controlling the Risks by—**

#### **I. Risk Avoidance:**

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 that accepting (retaining) the risk may have allowed.

#### **II. Risk Transfer:**

Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging

### **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 over time than the total losses sustained. All risks that are not avoided or transferred are retained by default.

### **C) Monitoring/Reporting**

Objectives shall be set at the strategic level, establishing a basis for operations, reporting and compliance objectives. Identifying the most relevant risks based on situation, evaluate the level of risks based on probability and the significance of their potential impact. Decide appropriate management action to respond to assessed risk. Monitor the implementation and success of risk mitigation action plan.

## **7. ROLES AND RESPONSIBILITIES OF BOARD & AUDIT COMMITTEE**

- i. . The Board will review the risk management policies and system periodically
- ii. The Chairman & Managing Director will be responsible for ensuring that the risk management system is established, implemented and maintained in accordance with this policy.
- iii. As per the Risk Organization Structure, the role and duties of each level of officer shall be a part of this head.

## **8. MAINTENANCE OF THE RISK MANAGEMENT SYSTEM**

### **i. Both Historical and Current data needs to be collected –**

Historical data tracks actual performance against target, identifies trends, correlate results and forecasts performance. Historical data also provides early warning signals concerning potential risk-related events.

Current data gives management a real time view of risks inherent in a process, function or unit.

### **ii. Evaluation and Control**

- a) Risks will be ranked in accordance with their likely impact
- b) The acceptability of each identified risk will be assessed

- c) Proposed actions to eliminate, reduce or manage each material risk will be considered and agreed
- d) Responsibilities for the management of each risk will be assigned to appropriate managers

### **iii. Monitoring**

The following process will be followed:

- a) On an immediate basis
- b) Monthly
- c) Semi-annually
- d) Annually

The Risk Management Plan is subjected to annual audit by the Auditor.

Everyone in the company is responsible for the effective management of risk. Management is responsible for developing risk mitigation plans and implementing of risk reduction strategies. The risk management process will be integrated with other planning processes and management activities.

## **9. REVIEW**

The strong and independent internal auditor function at the corporate level carries out risk focused audits across the company enabling identification of areas where risk management process may need to be improved. The Audit Committee of the Board reviews internal audit findings and provides strategic guidance on internal controls. Monitors the internal control environment within the Company and ensures the internal audit recommendations are effectively implemented.

## **10. 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.