BHARAT TEXTILES & PROOFING INDUSTRIES LIMITED

RISK MANAGEMENT POLICY

INTRODUCTION

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.

This policy lays down the framework of Risk Management of M/s. Bharat Textiles & Proofing Industries Limited (hereinafter referred to as the 'Company') and shall be under the authority of the Board of Directors of the Company. This policy 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.

REGULATORY FRAMEWORK

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

I. COMPANIES ACT, 2013:

a) 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

b) Section 177(4) stipulates: 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.

II. Regulation 24 (1) – SEBI (LODR), 2015

The Risk Management Policy ("Policy") is formulated under the requirements of Regulation 21(4) of the SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"). The Regulation states as under:

To formulate a detailed Risk Management Policy which shall include:

- A framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability (particularly, Environment, Social and Governance related risks), information, cyber security risks, legal and regulatory risks or any other risk as may be determined by the Committee;
- Measures for risk mitigation including systems and processes for internal control of identified risks; and
- Business continuity plan.

DEFINITIONS

a) **"Board of Directors" or "Board"** in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013)
b) **"Business Risk"** is the threat that an event or action will adversely affect an organization's ability to maximize shareholder value and to achieve its business objectives.
c) **"Policy"** means Risk Management Policy.
d) **"Risk"** the possibility that an event will occur and adversely affect the achievement of objectives.
e) **"Risk and Audit Committee or Committee"** means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing agreement.
f) **"Risk Assessment"** Risk Assessment is defined as the overall process of risk analysis and evaluation.
g) **"Risk Description"** A Risk Description is a comprehensive collection of information about a particular risk recorded in a structured manner.
h) **"Risk Register"** A 'Risk Register' is a tool for recording the risks encountered at various locations and levels in a standardised format of Risk Description.
i) **"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.

SCOPE OF THE POLICY

Risk Management is an integral part of good management. The application of sound risk management allows for continuous improvement, greater certainty in decision making and thereby ensures better chance of achieving organisational objectives.

M/s. Bharat Textiles & Proofing Industries Limited is exposed to number of risks in its ordinary course of business. This is inevitable, as there can be no entrepreneurial activity without the acceptance of risks and associated profit opportunities.

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 reporting, evaluating and resolving risks associated with the business.

The Key Objectives of the Risk Management Policy are:

a. To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed;
b. To establish a framework for the company's risk management process and to ensure companywide implementation;
c. To ensure proactive rather than reactive management;

d. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices;
e. To provide assistance to and improve the quality of decision making throughout the organization;
f. To assure business growth with financial stability.

RISK MANAGEMENT FRAMEWORK

Key elements of Risk Management Framework include **Risk Strategy, Risk Structure, Risk Portfolio, Risk Measuring & Monitoring, Risk Optimizing and Risk Treatment**. The implementation of the framework is supported through criteria for risk assessment and categorization, risk reporting matrix, risk forms & MIS.

"Key elements of an effective risk management framework"

A. RISK STRATEGY- Risk Strategy is the ability to effectively identify, quantify, control risks and to implement an effective framework to attain business objectives. Risk Management Strategy entails establishing a framework for realization of the Company's objectives. The strategy aims:

- To identify, evaluate and manage risks for the achievement of objectives.
- To assess the likelihood, impact and acceptability of all risks to which the company is exposed.
- To deliver controls and mitigation treatment to reduce the probability and impact of risks to an acceptable level.
- To integrate risk management activities at all levels in the company.

- To continuously monitor the effectiveness of the management of risks having particular regard to failings/weaknesses reported.
- To ensure that necessary action is being taken promptly to remedy failings/weaknesses.
- To identify and ensure delivery of effective risk management training programmes.
- To continuously monitor and review risks and controls to cater for external/internal changes.
- **Keeping the strategy on-going** -To ensure continued implementation of company's risk management policy and strategy, critical review and refresh the process shall be adopted within the organisation on an on-going basis.

Practices to be followed:

- **Regular Update** - To ensure a regular update of the risk register.
- **Communication Channel** - Highlighting instances of success and failures through Corporate Risk Updates.
- **Standing Agenda Item** - Discussions at every Risk Management Committee Meetings being scheduled item and potential cases to be covered in the Audit Committee and Board Meetings Agenda.
- **Open Forum** - Creation of free open forum (a blame free or learning culture) to report and discuss risks those required attention of Management.
- **Progress Monitoring** - Constantly monitoring progress of risk management process in the meetings of Risk Management Committee.

B. RISK STRUCTURE- A formal risk organization structure with defined roles and responsibilities for risk management activities is an essential prerequisite for an effective risk management framework.

Board of Directors (BOD) is responsible for overseeing and approving risk management strategy and policies. BOD may delegate the responsibility and authority of assessing effectiveness of the risk management procedures to the Audit Committee and Risk Management Committee. Risk Management Committee is the owner of the Risk Management Process and reviews risk management activities including Risk Register, on a quarterly basis for which it receives quarterly updates on identified risks from Risk Owners.

C. RISK PORTFOLIO: The risk portfolio management cycle begins with risk identification and is followed by risk assessment, risk categorisation and finally by recording of risks in the risk registers.

"Risk Management Cycle"

I. Risk Identification

The purpose of risk identification is to identify potential events that have an adverse impact on the achievement of business objectives.

Event identification includes identifying factors – internal and external – that influence how potential events may affect strategy implementation and achievement of objectives. Management identifies interrelationships between potential events and may categorize events in order to create and reinforce a common risk language across the entity and form a basis for considering events from a portfolio perspective.

Risk identification refers not only to the systematic identification of risks but also to the identification of their root causes. In order to identify risks, a range of potential events must be considered while taking into account past events and trends as well as possible future exposures. An event identified may have negative or positive impacts. An event with positive impact represents an opportunity and an event with negative impact represents a risk.

Risk Identification Procedure:

Risk identification begins with understanding the objectives of the Company and the strategies that have been adopted to achieve the same. Identification of risks is a continuous process and is carried out by Audit Committee, Risk Management Committee, Risk Owners, Risk Reporters and Project Heads together with the other employees. Common sources for identification of risks include, operating and financial results, reports, concern areas highlighted during meetings of various committees (such as Executive Committee, RMC, etc) and relevant information from the public domain.

Risk Management Committee through its members facilitates the risk identification process by undertaking the following activities:

・Holding discussions on the highlighted risk/issues through meetings and workshops.

・Providing consultation/ guidance with respect to risk identification process.

II. Risk Assessment

Risk assessment involves quantification of the impact of risks to enable prioritisation based on potential severity and probability of occurrence. This would allow an entity to consider the extent to which potential events might have an impact on achievement of objectives of the Company.

III. Risk Categorization

Risk Categorization into different groups helps to prioritize risks, within the Company. Categorization enables management to focus on a specific group of risks. Risks are categorized into the following categories: Strategic; Operational; Human Resource; Legal Regulatory & Compliance; Financial; and External Risk.

Risks specific to the Company and the mitigation measures adopted:

1) Business dynamics: Variance in the demand and supply of the product in various areas. Based on experience gained from the past and by following the market dynamics as they evolve, the Company is able to predict the demand during a particular period and accordingly supply is planned and adjusted.

2) Business Operations Risks: These risks relate broadly to the company's organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organisation and management risks,
- Production, process and productivity risks,
- Business interruption risks,
- Profitability

Risk mitigation measures:

- The Company functions under a well defined organization structure.
- Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
- Proper policies are followed in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.

3) Liquidity Risks:

- Financial solvency and liquidity risks
- Borrowing limits
- Cash management risks

Risk Mitigation Measures:

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.
- Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.
- Cash management services are availed from Bank to avoid any loss of interest on collections
- Exposures to Foreign Exchange transactions are supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

4) Credit Risks:

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.

5) Logistics Risks:

- Use of outside transport sources.

Risk Mitigation Measures:

- Exploring possibility of an in-house logistic mechanism if the situation demands.
- Possibilities to optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.
- Company has a dedicated transport group to handle all requirements relating to movement of goods, coal, clinker, cement including capital equipment, domestic

and imported, as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects.

6) Market Risks / Industry Risks:

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time, interest rate risks
- Raw material rates
- Interruption in the supply of Raw material

Risk Mitigation Measures:

- Raw materials are procured from different sources at competitive prices.
- Alternative sources are developed for uninterrupted supply of raw materials.
- Demand and supply are external factors on which company has no control, but however the Company plans its production and sales from the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company's products.
- The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile, delivery mechanisms, technical inputs and advice on various aspects of de-bottlenecking procedures, enhancement of capacity utilisation in customer-plants etc.
- Proper inventory control systems have been put in place.

7) Human Resource Risks:

- Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.
- Unrest Risks due to Strikes and Lockouts.

Risk Mitigation Measures:

- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
- Employees are trained at regular intervals to upgrade their skills.
- Labour problems are obviated by negotiations and conciliation.
- Activities relating to the Welfare of employees are undertaken.
- Employees are encouraged to make suggestions and discuss any problems with their Superiors.

8) Disaster Risks:

- Natural risks like Fire, Floods, Earthquakes, etc.

Risk Mitigation Measures:

- The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
- Fire extinguishers have been placed at fire sensitive locations.
- First aid training is given to watch and ward staff and safety personnel.
- Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.

9) System Risks:

- System capability

- System reliability
- Data integrity risks
- Coordinating and interfacing risks

Risk Mitigation Measures:

- EDP department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- Password protection is provided at different levels to ensure data integrity.
- Licensed software is being used in the systems.
- The Company ensures "Data Security", by having access control/ restrictions.

10) Legal Risks:

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

• A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.

IV. Risk Recording

"The Risk Register acts as a central repository of key risks"

Purpose of the risk register is to record identified key risks and related information in a structured manner. Reports drawn from the register are used to communicate the current status of all known risks and are vital for assessing management control, reporting and reviewing the risks faced by the Company.

The 'Risk Register' should contain the following information:

- Identified key risk
- Risk description
- Risk category
- Risk owner
- Root causes
- Impact and probability
- Qualitative impact
- Mitigating controls and action plan
- Timelines for implementation of action plans.

MIS will be developed by the Chief Risk Officer for gathering report of risks and early warning in respect thereof. Risks will be recorded in a Corporate Risk Register (CRR)**.** The Corporate Risk Register shall remain in the custody of the Chief Risk Officer.

D. RISK MEASURING AND MONITORING: A risk review involves re-examination of all risks recorded in the risk register, so as to ensure validity of the risk portfolio. The risk reviews will be conducted by the management (RMC and Risk Owners) on a periodical basis to monitor the effectiveness of the risk management framework. Further, an independent compliance review may be performed through an external consultant.

Risk reviews involve the following:

- Assessment of completeness and validity of risks recorded in the risk register
- Assessment of changes in the business processes, operating and regulatory environment since the last risk assessment carried out and corresponding changes required in the risk profile and risk management policy and procedures of the organization.
- Review of efficacy and implementation status of action plans for identified risks and consequent revision in action plans.

E. RISK OPTIMIZATION AND TREATMENT: The final step in a risk management framework involves optimisation of risks faced by the Company. It includes reducing costs related to excessive controls or taking action to expand risks in areas where existing controls provide additional risk capacity. Management should continually balance the cost/ benefit of taking such action with the need for to optimize risk in the organisation. Management's effort must be to control risks which have a 'high' or a 'significant' impact and reduce the exposure.

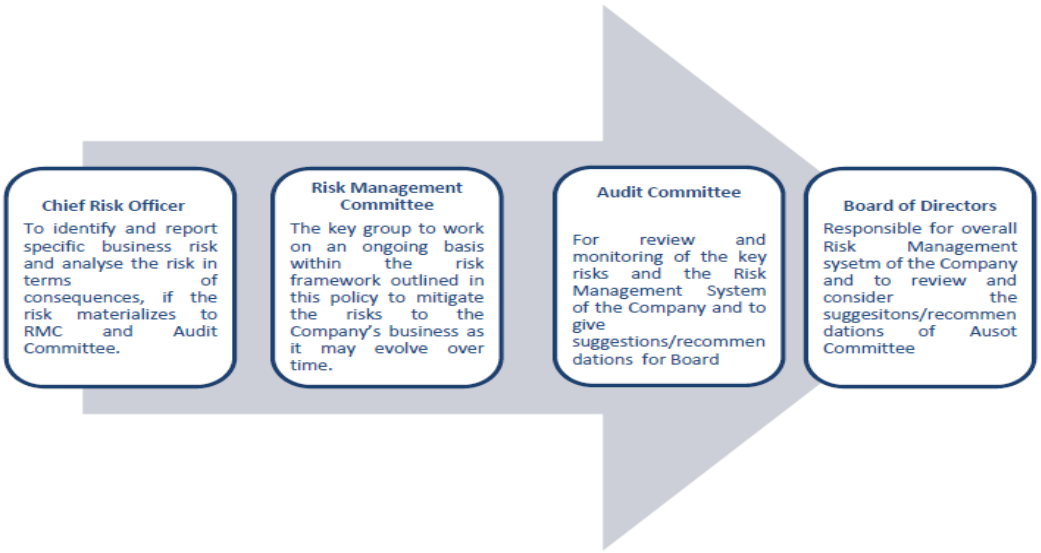
Risk Treatment

Following are key risk treatment options which management may adopt to optimise risks:

- **Risk Acceptance**: Risks which cannot be avoided, reduced or transferred are to be accepted by the company. The company also accepts risks where additional risk handling is not cost effective or potential returns are attractive in relation to the risk exposure.
- **Risk Avoidance**: This option is utilised for risks whose likelihood, consequences or organizational impact is significant. Hence, management may choose to avoid them altogether by withdrawing from such activities. (E.g. refuse orders, withdraw from some geographies etc)
- **Risk Mitigation**: It is an approach to reduce either the likelihood or the consequences of the risk event by designing specific controls (E.g. disaster recovery plan etc)
- **Risk Transfer**: Transferring means soliciting the involvement of a third party, thereby passing on' the impact of a risk event. (E.g. Insurance, joint ventures etc)

RISK MANAGEMENT INFORMATION SYSTEM (MIS)

The Company will have an enterprise-wide integrated Risk Management Information System (MIS) to be implemented. The structure of the MIS will be as follows:



REVIEW

The policy will be the guiding document for risk management in the Company and will be reviewed as and when required due to the changes in the risk management regulations/ standards/ best practices as appropriate.

Any changes to the Policies and Procedure are required to be approved by the Board of Directors.

DISCLOSURE IN BOARD'S REPORT

Board of Directors shall 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.