MATIX FERTILISERS

Risk Management Policy

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1.0 Introduction and Legal framework

Introduction:

Organizations face internal and external factors that influences the timeline and attainment of business objective. The effect this uncertainty has on an organization's objectives is "RISK".

Risk has two characteristics: (a) Uncertainty – an event may or may not happen and (b) An event has unwanted consequences of losses. Thus, risk is defined as an uncertain event or set of events which, should it occur, will have an effect on the achievement of objectives. A risk is measured by a combination of the probability of a perceived threat or opportunity occurring and the magnitude of its impact on objectives.

In recent times all sectors of the economy have shifted focus towards the management of risk as the key to making organizations successful in delivering their objectives while protecting the interests of their stakeholders.

Risk management is a holistic, integrated, structured and disciplined approach to managing risks with the objective of maximizing shareholder's value. It aligns strategy, processes, people & culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the organization while creating value.

With the vision to integrate risk management with the overall strategic and operational practices, this Risk Management Policy has been prepared, as a comprehensive set of components that provide the foundation and organizational arrangements for designing, implementing, monitoring, reviewing and improving risk management on continuous basis.

Legal framework:

Regulatory requirements as per Companies Act, 2013 prescribes every organization to have a robust risk management framework which shall be reviewed periodically:

a. As per Sec 134(3)(n) of the Act, the board of directors' report must include a statement indicating development and implementation of a risk management policy for the Company including identification of elements of risk, if any, which in the opinion of board may threaten the existence of the company.

b. The provisions of section 177(4)(vii) of the Companies Ac, 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.

2.0 Objective

The objective of the Risk Management Policy is to evolve a strategy to have a balanced approach towards business plan and to mitigate the associated risks through better management practices, resulting in greater degree of confidence amongst various stakeholders and also to adhere to Corporate Governance. 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 is one of the main responsibilities of Board / Management.

The specific objectives of the Risk Management policy are:

a. To establish a risk intelligence framework for the organization
b. To establish ownership throughout the Organization and consider risk management as an integral part of the business rather than a standalone system.
c. To help the decision makers of the organization explicitly take account of uncertainty, the nature of that uncertainty and work towards a solution to address it.

d. To ensure that all the current and expected risk exposures of the organization are identified, qualitatively and quantitatively evaluated, analysed, and appropriately managed.
e. To enable compliance with the relevant legal and regulatory requirements and international norms.
f. To ensure demonstrable achievement of objectives and improvements of financial stability of the organisation.

3.0 Framework for Risk Management Policy:

The Risk Management Policy of the Company shall comprise of a framework for assessment of risks arising out of operations as well as external environment, risk control & reporting of the same.

3.1 Risk Identification:

Risk identification is the process of identifying the organisation's exposure to uncertainty. Risk identification refers not only to the systematic identification of its root cause. Risk owners in respect of each identified risk are responsible for the execution of risk managing action which includes documentation of the root cause of the risk as well as the mitigation factors in place through suitable risk assessment tool. In selection of risk identification technology, following techniques may be considered:

- Team based brainstorming where workshops can prove effective in building commitment and making use of different experiences.
- Structured techniques such as flow charting, system design review, system analysis, hazard and operability studies and operational modelling.
- For less clearly defined situations such as identification of strategic risks, processes with a more general structure such as 'what if' and scenario analysis could be used.

3.2 Risk Evaluation:

Risk evaluation is the process to determine whether the risk and/or its magnitude is acceptable or tolerable.

Identified risks will be assessed in terms of potential consequences and cost of impact on asset, facilities, third parties etc. Risks will be ranked in accordance with their likely impact.

The intent of risk evaluation is to enable escalation of concern at the appropriate level of management as per risk measurement criteria.

Risk evaluation helps ensure appropriate resource allocation for the purpose of risk treatment and channelizing of management attention towards risks of significant concerns.

Risk evaluation will involve risk prioritization at each level viz.: (a) at Sectional, Departmental level; (b) at the levels of Plant Head, Marketing Head, Functional Heads in C. O.; and (c) at Company level.

3.3 Risk Control:

Risk Control is to examine each risk and decide as to how to prepare for the risk of event if it occurs. It involves defining steps for responses to threats. Depending upon the risk impact, strategy of action on considered measures or let risk happen, needs to be decided.

In order to mitigate losses arising out of perceived risks, the procedures being presently adopted to contain the risks, as also the practices adopted during emergencies, including the communication system and mode of disseminating information to the Authorities, Press, etc. would be reviewed from time to time. The risk falling in the categories of severe or high need special attention and those in the categories of medium or tolerable need careful attention.

3.4 Risk Monitoring and Reporting:

Risk monitoring and reporting for each month, quarter or half year, would be dealt in a structured way.

a) Risk Review & Monitoring

The following levels for Risk Review & Monitoring has been envisaged:

i. Sectional Heads & Departmental Heads in Plant, Marketing and Corporate Office in respect of their areas of work.

ii. Plant Head/ Marketing Head/ Functional Heads at Corporate Office in respect of the risks in their respective areas of work.

iii. Risk Management Committee – headed by Managing Director and comprising of Plant Head, Marketing Head and Functional Heads at Corporate office.

iv. Audit Committee of the Board.

b) Reporting Mechanism:

Each Sectional/ Departmental Head will review risk on monthly basis within his section/ department and submit a report to Plant Head, Marketing head or Functional Heads in C.O. according to their reporting Matrix. Though the structured review/ monitoring will be at regular defined intervals, but the reporting of perceived risks could be at more frequent intervals at need-based frequency.

A designated department in C.O. would compile a report on quarterly basis and present the same to the Risk Management Committee for its review.

The reporting and review mechanism shall be as under:

i. Sectional Heads to Departmental Heads (Monthly)

ii. Departmental Heads to Plant Head, Marketing Head or Functional Heads in C.O. (Monthly)

iii. Plant Head, Marketing Head and Functional Heads in C.O. to MD / the designated executive in Corporate Office (Quarterly)

iv. A report on Risk Management would be submitted to Audit Committee for its information and review (Half yearly)

4.0 Approaches to Risk Management Policy:

Company evaluates its business opportunities on parameters of viability, sustainability and profitability in the medium and long term in order to minimize probability of adverse impact of any unforeseen risk.

Careful analysis of the business environment, Corporate Plan and business practices followed by the Company, the foreseeable potential risks in the present context and inbuilt risk mitigation mechanism practiced by the Company form the basis in structuring the Risk Management Policy.

The Risk Management Policy of the company has been formulated to put in place a framework for assessment, risk control and reporting which are as under:

a) Identification and grouping of potential risks
b) Classification and grading of risks on the basis of their impact
c) Indicators or triggers for risks
d) Framing strategies for mitigation of identified risks
e) Procedure for monitoring and systematic reporting to the Board / Committee of Directors
f) Periodic review of the Risk Matrix
g) Communication of the Risk Management Policy across the company.
h) Communication to the Stakeholders / Authorities.

4.1 Identification and grouping of Potential Risks

Potential business risks at MATIX have been identified and grouped primarily into 5 categories as under:

I. Operational Risks

a) Feed / Other Raw Materials Risks

Different type of feed / other raw materials for risk assessment are Natural Gas / RLNG etc. The risks can be associated to

i. Availability
ii. Price
iii. Quality

b) Utilities Risks

i. Water availability
ii. Power supply

c) Consumables, Stores & Spares Risks

i. Neem oil
ii. Bags
iii. Stores & spares

d) Plant Risks

i. Breakdown of plants & machinery
   - Major Breakdown (More than continuous 72 Hrs.)
   - Minor Breakdown (Cumulatively less than 72 Hrs.)

ii. Obsolescence of instruments, technology etc.
iii. Labor unrest / Non-compliance of labor laws.
iv. Explosions & Accidents
v. Loss of Assets
vi. Handling & Storage of hazardous material
vii. Quality Risks w.r.t. products & intermediates
viii. Bagging Risk with regard to Weight variance in Urea Bags, Bags quality and Product quality
ix. Transportation Risks

e) New Project Related Risks

i. Equipment Suppliers/Agencies unable to meet the schedule
ii. Technological changes whilst project implementation
iii. Non-observance of Procedure / Guidelines for implementation of project

iv. Improper documentation of Project related activities
v. Major changes in market scenario
vi. External factors affecting project viability

f) Human Resource Risks

i. Attrition of experienced Manpower
ii. Difficulty in hiring experienced manpower
iii. Safe operation of plants
iv. Strike by existing contract labor / ex-contract labor / regular employees

II. Financial Risks

i. Credit Risk (long term debt finance)
ii. Non-availability of working capital
iii. Liquidity Risk
iv. Interest Rate Risk
v. Currency risk
vi. Delay in receipt of Subsidy
vii. Frauds, thefts, embezzlement

III. Market Risks

i. International Price Risks
ii. Procurement Risks
iii. Dealers / Retailers / Customer Risks
iv. Competition from local manufacturers
v. Entering into new business areas
vi. Govt. Policy and regulation, sales Proceeds realization
vii. Unfavorable climatic conditions leading to glut and price war in Urea market

IV. Regulatory Risks

a) Environment Risks

i. Change in Environmental criterion and emission standards
ii. Natural calamities
iii. Terrorism

b) Legal / Policy Risks

i. Change in Govt. Policies /legal frame work / statutory levies /

regulations

c) **Liability Risks**

i. Contractual Liability

ii. Third party liability risk

d) **Statutory Compliance Risks**

i. Non-compliance with legal / regulatory / tax / other / statutory compliance

e) **Internal Control Risks**

i. Control, Fraud and Compliance Risks

V. **IT Risks**

i. Failure of hardware

ii. Failure of Business Applications & security of electronic data

iii. Cyber Risks such as Hacking, sabotage etc.

iv. Communication network

Risks identified above are exhaustive. However, more risks as identified and perceived by the Sectional Heads, Departmental Heads, Plant Head, Marketing Head and Functional Heads in C. O., can be added from time to time.

4.2 Classification of risks and Indicators for measuring risks

The Risk Matrix indicates the impact of risk on the operations, revenue, profitability and sustainability of the business and the likelihood of its occurrence.

For each identified potential business risk, Triggers / Indicators would be identified that would raise an alarm about the criticality of risk.

Impact of an event would be categorized under four classes; viz. Severe / High / Medium / Low and its likelihood would be categorized under four classes, viz. High / Medium / Low.

The criterion for the above impacts would be as under:

Class	Financial Impact
Severe	>= Rs. 50 crore
High	>= Rs. 10 crore < 50 Crore
Medium	>= Rs. 1 crore < 10 Crore
Low	< Rs. 1 crore

4.3 Indicators or Triggers:

The identified and assessed risks are essentially potential risk and would not happen (in most of the cases) spontaneously and without a warning.

A potential risk, before it is actually occurring would create identifiable signals or indicators. When such signals are properly and promptly noticed and the reasons analyzed, proper remedial actions could be taken to avoid occurrence of the risk event.

In the Risk Matrix, triggers that would lead to the events of risk shall be indicated. Strategy needed to mitigate the risks would have to be appropriately applied based on the same.

4.4 Framing strategies for mitigation of identified risk :

The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

a) **Risk Avoidance:** By not performing an activity that could carry risk. Avoidance may appear to be the answer for all the risks, but avoiding risks may also result in losing out on the potential gain that accepting (retaining) 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 or through Insurance.

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

d) **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 than the total losses likely to be sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against, or the premiums would not be feasible.

5.0 Responsibility for implementing Risk Management Policy:

All the executives of the organisation shall be responsible for the implementation of the Risk Management Policy, in respect of their respective areas of work/responsibilities.

Designated department in Corporate Office shall be the coordinating department for compiling all the reports received from Plant Head, Mktg Head & Functional Heads in C. O., and place the same before the Risk Management Committee.

6.0 Communication of the Risk Management Policy across the company:

For effective implementation of the Risk Management Policy, communication and training across the company is required. Policy shall be displayed on website. Further, any significant change in the policy shall be communicated to the employees across the layers to make aware of:

- The risks faced by the company
- Their impact on the business, if it happens
- Mitigation measures to prevent happening and lower the impact
- What to do if it happens

7.0 Review Mechanism:

The Risk Management Policy of the Company would be reviewed from time to time to ensure that it meets the requirement of dynamic business environment, to identify new risks to which the company is getting exposed and to capture the changes in the legislation as may be required.

8.0 Disclosure in the Annual Report:

Disclosure in the annual report of the Company shall be made as per applicable provision/ practice followed by unlisted companies.

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