# H.P. COTTON TEXTILE MILLS LIMITED

## Risk Management Policy

**Amended by Board : 11.02.2020**

# Contents

## 1. INTRODUCTION

H.P. Cotton Textile Mills Limited (**"*the Company*"**) is a Company prone to inherent business risks like any other organization. This document lays down the framework of Risk Management at the Company and defines the policy to identify risk in business operations of the Company and provides guidelines to define, measure, control and mitigate the identified risks.

## 2. LEGAL FRAMEWROK

**Responsibility of the Board:** As per Section 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 the board may threaten the existence of the Company.

**Responsibility of the Audit Committee:** As per Section 177 (4)(vii) of the Act, the Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include evaluation of internal financial controls and risk management systems.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a "Risk Management Policy" (this Policy) of the Company

## 3. TERMS AND DEFINITIONS

In this Policy, the following terms shall have the following meanings:

i. **"Company"** means H.P. Cotton Textile Mills Limited

ii. **"Act"** means the Companies Act, 2013

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

iv. **"Board or Board of Directors"** means the collective body of Directors of the Company

v. **"Director"** means a director appointed to the Board of the Company

vi. **"Audit Committee"** means the committee constituted by the Company's Board in accordance with the provisions of Section 177 of the Companies Act, 2013

## 4. OBJECTIVE

i. Providing a framework that enables activities to take place in a consistent and controlled manner.
ii. Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/threats.
iii. Contributing towards more efficient use/allocation of the resources within the organization.
iv. Protecting and enhancing assets and company image.

v. Reducing volatility in various area of the business.
vi. Developing and supporting people and knowledge base of the organization.
vii. Optimizing operational efficiency.

## 5. RISK MANAGEMENT FRAMEWORK

### 5.1 Process

Risk management is a continuous process that is accomplished throughout the life cycle of a Company. It is an organized methodology for continuously identifying and measuring the unknowns; developing mitigation options; selecting, planning, and implementing appropriate risk mitigations; and tracking the implementation to ensure successful risk reduction. Effective risk management depends on risk management planning; early identification and analyses of risks; early implementation of corrective actions; continuous monitoring and reassessment; and communication, documentation, and coordination.

### 5.2 Steps in Risk Management

#### 5.2.1 Risk Identification

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

1. Operational
2. Strategic
3. Financial
4. Regulatory
5. Compliance
6. Competition
7. Treasury/Foreign Exchange
8. Technology

#### 5.2.2 Risk Description

To display the identified risks in a structured format:

| | |
|---|---|
| Name of Risk | |
| Scope of Risk | Qualitative description of events with size, type, number etc. |
| Nature of Risk | Strategic, Operational, Financial, Regulatory Risk/Technology Risk. |
| Quantification of Risk | Significance and Probability |
| Risk Tolerance/Appetite | Loss Potential and Financial impact of Risk |
| Risk Treatment and control Mechanism | a) Primary Means<br>b) Level of Confidence<br>c) Monitoring and Review |
| Potential Action for Improvement | Recommendations to Reduce Risk |
| Strategy and Policy Development | Responsibility to develop Strategy and Policy |

### 5.2.3 Risk Assessment

Risk assessment is the process of risk prioritization or profiling. Likelihood and Impact of risk events have been assessed for the purpose of analyzing the criticality. The potential Impact may include:

- Financial loss;
- Non-compliance to regulations and applicable laws leading to imprisonment, fines, penalties etc.
- Loss of talent;
- Health, Safety and Environment related incidences;
- Business interruptions / closure;
- Loss of values, ethics and reputation.

The likelihood of occurrence of risk is rated based on number of past incidences in the industry, future trends or research available. Risk may be evaluated based on whether they are internal and external, controllable and non-controllable, inherent and residual.

### 5.2.4 Risk Treatment - Mitigation

Treatment of Risk through the process of selecting and implementing measures to mitigate risks. To priorities 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.

The Board shall have the discretion to deal with significant 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 Audit Committee.

## 5.3 Risk Reporting

### 5.3.1 Internal Reporting

While the Company will be monitoring, evaluating and responding to risks. Only significant risks (or those that could become significant) need to be reported to the Audit Committee and Board. Significant risks include those risks that have a high likelihood or significant impact or where there is limited ability for mitigation by the Company. These risks are identified and assessed based on the Company's expertise, judgement and knowledge.

### 5.3.2 External Reporting

Significant Risks that have a high likelihood or significant impact or where there is limited ability for mitigation by the Company needs to be reported to the stakeholders on regular basis as part of good Corporate Governance.

## 5.4 Board's responsibility statement

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.

The Board of Directors of the Company and the Audit Committee shall periodically review and evaluate the risk management system of the Company, so that the Management controls the risks through risk management framework.

## 6. REVIEW

This policy shall evolve by review by the Audit Committee and the Board from time to time as may be necessary.

## 7. AMENDMENT

This Policy can be modified at any time by the Board of Directors of the Company, as may be necessary.

## 8. DISCLAIMER

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.

This Policy is approved by the Board of Directors at their meeting held on February 11, 2020 and shall be effective from February 11, 2020

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