

## RISK MANAGEMENT POLICY

OF

### VARDHMAN SPECIAL STEELS LIMITED

*(U/s 134 (3) (n) of the Companies Act, 2013 and Regulation 21 of the SEBI (LODR) Regulations, 2015)*

#### 1. **PREFACE:**

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

Risk management in a business environment 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.

Section 134 (3)(n) of the Companies Act, 2013 requires every company to attach to its Board Report a statement indicating development and implementation of a Risk Management Policy for the Company including identification therein of element of risks, if any, which in the opinion of the Board may threaten the existence of the Company.

Regulation 21 of SEBI (LODR) Regulations, 2015, inter alia, provides for a mandatory requirement for top 1000 listed companies to formulate ‘Risk Management Policy’.

It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimize their adverse impact on the organization.

#### 2. **PURPOSE AND SCOPE:**

This policy establishes the process for the management of risks faced by Vardhman Special Steels Limited (“VSSL”). The aim of risk management is to maximize opportunities in all activities and to minimize adversity. This policy applies to all activities and processes associated with the normal operations of VSSL. Effective risk management allows the Company to:

- ❖ embed the management of risk as an integral part of its business processes;
- ❖ establish an effective system of risk identification, analysis, evaluation and treatment within all areas and all levels;
- ❖ Make informed decisions
- ❖ avoid exposure to significant reputational or financial loss;

- ❖ Assess the benefits and costs of implementation of available options and controls to manage risk.
- ❖ Have increased confidence in achieving its goals
- ❖ Strengthen corporate governance procedures

Thus, it is the responsibility of all Board members, Senior Management and employees to identify, analyse, evaluate, respond, monitor and communicate risks associated with any activity, function or process within their relevant scope of responsibility and authority.

### 3. **RISK STRATEGY:**

VSSL recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. VSSL, one of the growing alloy steel manufacturing company is committed towards excellence. The product range of the company comprises:

- Black Steel Bars
- Bright Steel Bars

#### **Types of Risks:**

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks, inter alia, are Regulations, Competition, Business risk, Technology Obsolescence, Retention of talent etc. Business risk, inter-alia, further includes financial risk, Political risk, Legal risk etc.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the Company would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.

### 4. **RISK MANAGEMENT FRAMEWORK:**

In principle, risk always results as a consequence of activities or as a consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks.

Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures. VSSL adopts a systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating risks proactively and help to achieve stated objectives.

The Company will consider activities at all levels of the organization and its Risk Management with focus on three key elements, viz.,

(1) Risk Assessment- detailed study of threats and vulnerability and resultant exposure to

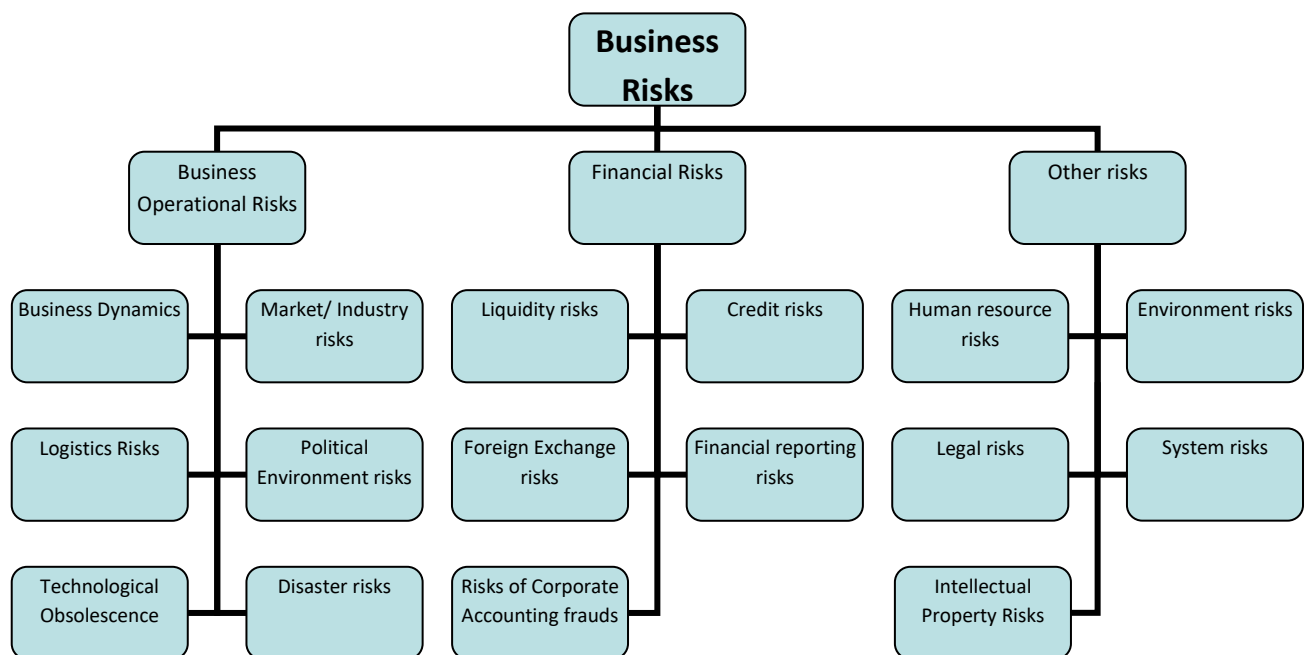
various risks.

(2) Risk Management and Monitoring- the probability of risk assumption is estimated with available data and information.

(3) Risk Mitigation- Measures adopted to mitigate risk by the Company.

## 5. RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED:

We have divided the risks into three broad categories, namely:-



### (I) BUSINESS OPERATIONAL RISKS

1) **Business dynamics:** These include:-

- ❖ Organization and management risks
- ❖ Production, process and productivity risks
- ❖ Major Breakdowns resulting in shut down of more than 7 days (like Failure of EAF transformer & ECR or any other critical equipment)
- ❖ Disruption in Supply of Natural Gas
- ❖ Deterioration in quality of the Product
- ❖ Shifting of Orders from VSSL to other suppliers

#### Risk mitigation measures:

- ❖ The Company functions under a well-defined organization structure with focus on role clarity.
- ❖ Proper systems are in place in relation to maintenance of inventories of raw materials, finished goods for servicing to the customers, spare transformer, key spares and tools to ensure continuity of production, stocks of consumables,

ferrous alloys and their availability for planned production programmes.

- ❖ Selection of technology, standardization of processes, clear SOPs, training, upkeep of assets etc.
- ❖ Proper training and development, incentives and reward system for employees at all levels.

2) **Market Risks / Industry Risks:** These include:

- ❖ Raw material availability and movement of rates
- ❖ Demand and Supply Risks
- ❖ Quantities, Qualities, Suppliers and lead time
- ❖ Competition
- ❖ Increase in commercial costs
- ❖ Decline in demand of alloy steel due to significant increase in demand of EVs

**Risk Mitigation Measures:**

- ❖ Tracking micro and macroeconomic level data, market trends and forecasts by expert agencies, internal review by team of experts by forming Committees.
- ❖ Developing a good understanding and tracking of movement of rates of raw material at macro level, keeping a track on global and domestic economy, climatic conditions, geo-political factors, global demand and supply, trade policies etc.
- ❖ Alternative sources are developed for uninterrupted supply of raw materials.
- ❖ Demand and supply are external factors on which company has no control. However, based on experience gained from the past and by following the market dynamics as they evolve, movement by competition, economic policies and growth patterns of different segments, the Company is able to estimate the demand during a particular period and accordingly supply is planned and adjusted.
- ❖ 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 utilization etc.
- ❖ Proper inventory control systems have been put in place and review these systems every six months.
- ❖ The Company has been increasing operational efficiency and continue to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.
- ❖ On competition side, keeping a close watch on competitor's strengths and weaknesses, impact on their costs, competition dynamics etc.
- ❖ Effective steps are being taken to reduce cost of production on a continuing basis through focus on cost and realization, budgets, budgetary controls, management control system, close watch on market dynamics etc.

3) **Logistics Risks:** Use of outside transport sources.

**Risk Mitigation Measures:**

- ❖ Company has a dedicated logistics department awarding contracts for different stations to the different transporters through a transparent bidding system on quarterly/half-yearly basis to handle all requirements relating to movement of its raw material, finished goods etc.

4) **Political Environment risks:**

Any adverse change in the political environment of the country, government policies related to steel industry etc. can have an impact in growth strategies of the company.

**Risk Mitigation Measures:**

- ❖ Reviewing and monitoring the country's steel related industrial, labour and other related policies independently as well as being member of various trade related associations.

5) **Technological Obsolescence:** The Company strongly believes that technological obsolescence is a practical reality.

**Risk Mitigation Measures:**

- ❖ Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the most appropriate of the prevailing technology.
- ❖ The Company is bringing all the required technological changes across its manufacturing facilities.

6) **Disaster Risks:** These include:

- ❖ Natural risks like Fire, Earthquakes, Floods, Pandemic etc.
- ❖ Vandalization to the company property by a disgruntled, dismissed, retrenched employee

**Risk Mitigation Measures:**

- ❖ The properties of the company are insured against natural risks, like fire, earthquakes, etc. with periodical review of adequacy, rates and risks covered.
- ❖ Health audit of buildings is done periodically.
- ❖ Survey on identification and mitigation measures by an independent expert appointed by an insurance company every year.
- ❖ Fire extinguishers have been placed at fire sensitive locations.
- ❖ First aid training is given to watch and ward staff and safety personnel.
- ❖ Adequate safety measures & following all the guidelines of the central and the

State Govt. in case of any pandemic situation.

## (II) **FINANCIAL RISKS**

### 1) **Liquidity Risks:** These include:

- ❖ Financial solvency and liquidity risks
- ❖ Cash management risks

#### **Risk Mitigation Measures:**

- ❖ Proper financial planning is put in place with detailed Annual Business Plan discussed at appropriate levels within the organization.
- ❖ 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 and monitored at senior levels to access the fund requirements and ensure utilization of funds in an effective manner.
- ❖ Cash management services are availed from Bank to ensure efficient collection and utilization of funds.

### 2) **Credit Risks:** These include risks in settlement of dues by customers

#### **Risk Mitigation Measures:**

- ❖ Systems put in place for assessment of credit worthiness of customers and fixing credit limits accordingly. Also, a well-defined system and approval matrix for exceeding the defined credit limits.
- ❖ Provision for bad and doubtful debts are appropriately made in books of accounts.
- ❖ Appropriate recovery management and follow up.

### 3) **Foreign Exchange Risks:**

- ❖ We face foreign currency exposure on exports, imports & foreign currency loan if any are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

#### **Risk Mitigation Measures:**

- ❖ The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by re-instating the liability according to the exchange rate prevailing at the end of each quarter.

- ❖ Foreign currency exposures are recognized from the time an import/export order/contract is signed and as per contractual maturity prior to opening of Letters of Credit and/or Purchase Orders by customers.
- ❖ Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with a hedge cover as per policy.
- ❖ We have an internal policy on foreign exchange, which includes separate front and back offices for forex dealings, implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

#### **4) Financial Reporting Risks:**

- ❖ Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations creates uncertainty for the Company.
- ❖ Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies which could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

#### **Risk Mitigation Measures:**

- ❖ The Company is having strong team of experts in different areas at unit as well as at its corporate office and also through membership of various trade associations who keep track of any changes in laws, regulations, accounting standards etc. having an impact on the Company.
- ❖ The Company is having full time compliance officer, internal auditors, statutory auditors ensuring compliance with evolving laws, regulations and standards.

#### **5) Risk of Corporate Accounting Fraud:**

Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating expenses, understating revenues etc.

#### **Risk Mitigation Measures:**

- ❖ Conducting risk assessments,
- ❖ Enforcing and monitoring code of conduct for key executives
- ❖ Instituting Whistleblower mechanisms
- ❖ Deploying a strategy and process for implementing the new controls
- ❖ Adhering to internal control practices that prevent collusion and concentration of authority
- ❖ Employing mechanisms for multiple authorization of key transactions with cross checks
- ❖ Creating a favorable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and

manuals and a host of other steps throughout the organization.

### (III) **OTHER RISKS**

#### 1) **Human Resource Risks:**

- ❖ Absence of Succession Planning of Key Managerial Personnel
- ❖ Unrest Risks due to Strikes and Lockouts.
- ❖ Lack of Talent Identification, Nurturing & Retention
- ❖ Negative, Stressful, Disengaged, Biased, Non-progressive organizational culture
- ❖ High Attrition rate of manpower

#### **Risk Mitigation Measures:**

- ❖ Ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence.
- ❖ Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- ❖ Proper appraisal systems with the participation of the employee and consistent with job content, peer comparison and individual performance for revision of compensation on a periodical basis has been evolved and followed regularly.
- ❖ Inculcate in employees a sense of belonging and commitment and also effectively train them in spheres other than their own specialization.
- ❖ Activities relating to the Welfare of employees are undertaken.
- ❖ Employees are encouraged to give suggestions and discuss any problems with their Superiors.
- ❖ Efforts are made to keep cordial relations with employees at all level.

#### 2) **Environmental Risk Management:**

- ❖ The Company endeavors to protect the environment in all its activities, as a social responsibility. The legal exposure in this regard is when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding is an offence.
- ❖ Non-compliance to the conditions in Environment Clearance given by MoEFCC.
- ❖ Changes in laws and regulations with respect to protection of Environment.

#### **Risk Mitigation Measures:**

- ❖ The Company is having environment compliance officer who keeps track of all changes in laws and regulations with respect to Environment.
- ❖ Ensuring compliance with all the conditions imposed in Environment Clearance such as extensive plantation of trees in and around manufacturing plant Ground water extraction within permitted limits, emissions below 30 ppm etc.
- ❖ Focus on upkeep and efficient operations of environment protection system and equipment.



3) **Legal Risks:** Legal risk is the risk in which the Company is exposed to legal action. The Company is governed by various laws and the Company has to do its business within four walls of law, where the Company is exposed to legal risk exposure.

**Risk Mitigation Measures:**

- ❖ Experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments.
- ❖ Management places reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.
- ❖ The Company has established a compliance management system in the organisation and Secretary of the Company being the focal point, get the quarterly compliance report from unit head and being placed before the Board at every quarterly Board meeting of the Company.

4) **System Risks:**

- ❖ Cyber crime
- ❖ System capability
- ❖ System reliability
- ❖ Data integrity risks

**Risk Mitigation Measures:**

- ❖ IT department maintains and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- ❖ The Company ensures "Data Security", by having access control/ restrictions.
- ❖ Regular backup of business-critical application (both application and database) through Backup solution.
- ❖ Periodic update of patches on end device and servers.
- ❖ Implementation of Anti-Virus on end devices & servers to prevent the devices from malware, trojan attack.
- ❖ Implementation of EDR (Endpoint Detection & Response) to prevent advanced cyber-attacks on Devices.
- ❖ Active Directory implemented for restricting the access of Authorized software only.
- ❖ Implementation of IAM (Identity and Access Management) along with 2 factor authentication for business critical applications.
- ❖ Email spammer to block the spam emails.
- ❖ 'Deep security' and 'Datacenter Advance' for enhanced server security.
- ❖ Implemented device access control (block USB, blue tooth etc.) to prevent data

leakage.

- ❖ Perimeter security / Web security through UTM devices.
- ❖ DMZ zones (Dematerialized Zone) created for prevention of unauthorized application access.

#### 5) **Intellectual Property Risks:**

- ❖ Knowledge Risks: It means a lot to us especially after the strategic alliance with Aichi Steel Corporation. Though we are into manufacturing of alloy steel, the technology of which is easily available with other suppliers in the domestic as well as overseas market, but retention of soft knowledge of making specific quality of steel and matching other supply conditions demanded by the customer is a challenge. Team is learning various Japanese practices with respect to Safety, Root Cause Analysis, Steel making, quality analysis, project implementation etc. from Aichi Steel Corporation. Non-perseverance of this knowledge is a risk.

#### **Risk Mitigation Measures:**

- ❖ We have created an organized centralized data storage system with respect to the knowledge being gained from Aichi Steel Corporation
- ❖ We continuously protect and utilize IP rights on technologies sustaining our technological edge, and eliminate counterfeits that infringe our IP rights.
- ❖ At the same time, we respect the IP rights of other companies, and conduct necessary investigations to avoid any infringement.
- ❖ Vardhman is registered under relevant clauses of trademark.

#### 6. **AMENDMENTS:**

This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto.

#### 7. **DISCLAIMER CLAUSE:**

The Management cautions 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.