

MRO-TEK LIMITED

RISK MANAGEMENT POLICY

Introduction

In India, listed companies are governed by the Securities and Exchange Board of India (SEBI). Clause 49 of the Listing Agreement of SEBI outlines measures for improvement of corporate governance. In line with Clause 49 and Section 134 of the new Companies Act, 2013, the company has established robust procedures for defining the company's risk strategy. This strategy includes risk identification, and implementation of measures to reduce the impact of these risks.

Further, the Organisation for Economic Co-operation and Development (OECD) defines corporate governance as follows: "Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making."

Risks are uncertain events that may take place and they may have a negative impact on reaching the organization's objectives. Risk management is the process of recognizing, assessing, and mitigating the impact of risks that might potentially cause financial losses, affect market reputation or resources. While risks cannot be entirely avoided, the management has placed measures to manage them effectively in line with regulations, objectives and company's values. In the current economic scenario, managing risks has become more challenging. However, through this policy, an attempt has been made to address the nature of all identifiable risks applicable to the company and the methods employed by the company to address them.

The primary objective of the company's Risk Mitigation Policy is to protect the interest of shareholders by laying down a framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of key risks.

The Risk Management Policy of the company is intended to:

- to serve as a document wherein risks affecting the entire organization, at a macro-level are enumerated
- to describe the measures employed by the management in managing these risks across all divisions and functions, and

The company has identified 15 important risks that may have a significant impact on the business, if ignored. The company has established a set of proactive and reactive measures to address them. These risks were determined based on detailed analysis of the markets where we operate, nature of our products and services rendered, and inherent risks in various functions.

The company has recognized the following areas of risk:

1. Economic Slowdown and Market Growth
2. Competition
3. Inflation
4. Capacity Utilization and Productivity

5. Product Quality and Safety Standards
6. Supply Chain
7. Employee-Related
8. Physical Security
9. Information Security
10. Assets and Property
11. Foreign Currency Fluctuations
12. Interest Rate Fluctuations
13. Financial Accounting and Reporting Risks
14. Fraud, Control and Governance
15. Statutory and Other Compliance Requirements

Risk Management Policy Forming Part of Directors' Report

The Directors' Report envisaged under sub-section 3 of Section 134 of the Companies Act, 2013, must 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 policy referred to in the aforesaid section shall be this Risk Management Policy.

1. Economic Slowdown and Market Growth

Mitigation Measures: The Company has laid down the following measures to reduce the impact of this risk:

- Diversification of business into numerous markets by increasing the product portfolio, thereby reducing dependence on industrial and manufacturing markets.
- Through the Annual Planning exercise, review of existing and future market situation and making necessary modifications to short-term and long-term business plans.
- Explore additional business opportunities, through organic or inorganic avenues.

2. Competition

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the impact of this risk:

- Focus on localization of operations by reducing imports and increasing in-house manufacture through domestic procurement. This will enable the company to reduce costs and offer competitive prices to the consumers.
- Increase market penetration of products.
- Launch new products through our New Product Introduction process where innovations are researched and developed to meet domestic customer requirements.
- Offer services in conjunction with products in business divisions, where feasible.
- Engage in seeking competitive intelligence to understand pricing and market positioning of other products.

3. Inflation

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the impact of this risk:

- Establishment of a function that is dedicated to addressing lean manufacturing and methods of reducing unnecessary costs in all aspects of our operations.
- System of regular review of pricing policies based on increased input costs of products.
- Checks and balances to detect apparent cost inefficiencies in the nature of duplicate payments, cost differences, price variations etc.

4. Capacity Utilization and Productivity

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the likelihood of this risk:

- Conscious efforts to increase utilization through improvements to existing products and innovations.
- Frequent review of business plans to match changing customer preferences and to introduce more profitable product mix.

5. Product Quality and Safety Standards

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the likelihood of this risk:

- Qualification of suppliers at the time of appointment and periodical vendor assessment in terms of quality and other parameters.
- Detailed guidelines on waste management and monitoring of compliance with applicable laws.
- Medical screening and assessment of employees who maybe potentially exposed to hazards.
- Process and product audits at factories to identify any quality lapses.
- Distribution warehouse audits to check quality delivery to customers
- Fire fighting and detection systems installed at all plants

6. Supply Chain

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the likelihood of this risk:

- Robust distribution system through a network of warehouses, distributors, and transport agencies to ensure timely and quality delivery to customers.
- Collaborative efforts of the Business Divisions at the head office and branches to understand end customer requirements.

- Implementation of a codification system where defects or concerns in the final product can be traced back to the relevant stage in the supply chain Distribution network audits to ensure that transactions in the warehouse are well accounted for.

7. Employee-Related

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the likelihood of this risk:

- Identification of critical talent and action plans implemented to ensure retention of such employees. The process involves HR and business divisions working together where such employees are identified on the basis of defined parameters. Focus on building a healthy work environment that enables career progression across different areas of interest.
- Supervisory training provided to people leaders that enables them to motivate and retain their team.
- Implementation of succession plans where a successor is identified for every key management personnel combined with grooming of those individuals to fit in to their roles.
- Employee benefits provided such as group medical and Accidental Death and Dismemberment insurance coverage.
- Periodical health check for operators at plants and all other employees
- Mandatory sign-off on Confidential Non-Disclosure Agreement at the time of appointment.
- Mandatory Business Conduct Policy certification by all employees.
- The Human Resources team works closely with business divisions and functional heads to reduce attrition.

8. Physical Security

Mitigation Measures: The Company has laid down the following mitigation measures to manage these risks:

- Regular fire drills conducted at all locations.
- Preventive maintenance checks and Annual Maintenance Contracts to ensure early detection of any asset-related operational inefficiency.
- Surprise checks on physical security at all locations.
- Management of visitor handling through robust processes.
- Emergency Response Teams in each floor of the corporate office.
- Perimeter security identification and assessment at the plants.
- Truck inspection and inward checks (such as surrender of ID cards on entry) for drivers at plants.
- Surveillance cameras positioned at critical points in all locations.
- Fire fighting and detection systems installed at all plants

9. Information Security

Mitigation Measures: The Company has laid down the following mitigation measures to manage these risks:

- Implementation of an automatic system changes over to an alternate site in the event of a network failure.
- All employees sign a Confidential Non-Disclosure Agreement at the time of appointment.
- An Electronics Policy is in place that details unauthorized access and use of data.
- On appointment of an employee, approvals from functional heads are obtained to facilitate creation of an employee ID. Access to required information systems is dependent on an employee ID.
- Segregation of duties with respect to access, view and modification of information systems are validated periodically.
- Periodical testing of IT Business Continuity Plan.

10. Assets and Property

Mitigation Measures: The Company has laid down the following mitigation measures to manage this risk:

- Adequate insurance cover to secure the business from losses such as fire, theft, etc.
- Preventive maintenance checks and Annual Maintenance Contracts to ensure early detection of any asset-related operational inefficiency.
- Tagging of assets and periodical physical verification.
- Identification of impaired assets and determination of best means of disposal.
- Training provided to all employees on the importance of the company's intellectual property assets and to promptly report any concerns to the Legal department.

11. Foreign Currency Fluctuations

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the impact of this risk:

- Pricing is determined based on replacement costs and updated on periodical basis.
- Price triggers employed to identify fluctuations above a threshold and implement price increase as required.
- Foreign exchange fluctuation impact is minimized by monitoring the movement of exchange rates during the credit period and making payments accordingly
- Negotiate with customers for foreign currency-linked prices wherever possible

12. Interest Rate Fluctuations

Mitigation Measures: The Company has laid down the following measures to reduce the impact of this risk:

- Avail loan facilities strictly based on requirements determined from time-to-time by the Chief Financial Officer in conjunction with recommendations made by Heads of Business Divisions.
- Evaluate various financing facilities such as term loans and lease based on the requirement, interest rates and other factors that govern the finance obligation.
- Agree with the lender interest rates for the estimated period of borrowing, based on the current and foreseeable market condition.
- Monitor the existing market interest rates and try to re-negotiate interest rates with the lender, where feasible.

13. Financial Accounting and Reporting Risks

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the likelihood of this risk:

- Monthly review, closing, reconciliation and reporting procedures including generation of statement of financial position.
- Effective Monthly Information and Reporting System where operating results are reviewed by business and functional heads at Monthly Leadership Team meetings.
- Robust processes and procedures implemented for accounting including segregation of duties and establishment of authority level matrices.
- Annual Planning Cycle where targets have been set for better management of working capital operations.
- Credit policy for customers has been established.
- Monthly reviews by members of the Business Divisions, Plant Heads and Finance to assess the position of receivables.
- Dedicated team of finance professionals to manage customer collections.
- Joint efforts of the CFO and the Plant Managers to assess the position of inventories and approve monthly provisions for obsolete stock.
- Sourcing policy details levels of approvals for purchase requisitions and purchase orders, bank guarantee requirements and advances.
- Internal control framework designed for early detection and monitoring by the Internal Audit team that reports back to the Audit Committee.

14. Fraud, Control and Governance

Mitigation Measures: The Company laid down the following mitigation measures to reduce the likelihood of counterfeit products, misappropriation of cash and other assets and ensure compliance with all applicable laws.

- Raids conducted at potential counterfeit threat locations to unearth such instances.
- Implementation of controls like segregation of duties and authority level matrices. Validation of segregation of duties also takes place specifically in procurement to reduce the impact of potential corruption or vendor conflict.
- Fraud awareness and anti-corruption training through online courses and onsite seminars.
- Annual sign-off on Business Conduct document by employees and vendors.
- Implementation of anti-corruption clauses in contracts with vendors and customers.
- Vendor assessment checks performed prior to appointment of a vendor.
- Sourcing policy details a compliance section on vendor qualification, checks and balances for payment approvals and agreements for non-disclosure of information.
- Adequate insurance coverage taken to ensure protection from potential losses.
- Internal audit conducted. The exercise is ongoing and the scope and frequency is reviewed and determined on a periodical basis by the Audit Committee. Process owners' perception of risk, past incidents, risk assessment.
- Generation of exception reports and performing reconciliations to detect red flags by the respective functional teams and the Internal Audit team.
- Company policy discourages handling of cash except to meet limited and genuine petty cash requirements.
- Process reviews by external auditors at the time of year-end and quarter-end audits.
- Pursue and initiate action for recovery of identified losses resulting from fraud.
- Continuous education of all employees on relevant policies and reinforcement of zero-tolerance policy towards non-compliance.

15. Statutory and Other Compliance Requirements

Mitigation Measures: The Company has laid down the following mitigation measures to reduce the impact of this risk:

- The Legal and Compliance teams, jointly with the respective functional teams, monitor and review adherence to various rules and regulations.
- Awareness created among employees to report potential regulatory/legal concerns to the Legal department which takes necessary steps to protect the company's interests.
- The company's portal hosts training courses on legal matters and compliance processes and procedures.
- The Compliance team has established a system of self-assessment wherein compliance aspects related to local policies and regulations are examined by all functions.
- Compliance calendars are in place where licence renewals, filing of returns and submissions are monitored and tracked.

- An online repository of comprehensive policies and procedures has been made available to all employees.