



HMT LIMITED

एचएमटी लिमिटेड



Risk Management Policy

जोखिम प्रबंधन नीति



ENTERPRISE
RISK
MANAGEMENT

POLICY DOCUMENT

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RISK MANAGEMENT POLICY

The Risk Management Policy is framed considering various types of risks faced by the Company, with a view to have a better management & reporting system of such risks and to take appropriate action to assess such risks on a timely basis. The policy is applicable to HMT Limited and all its Subsidiary Companies and provides a mechanism of reporting system by the Units / Subsidiary Companies.

1. Regulatory Requirements

The Risk Management Policy of HMT Limited is framed as per the following regulatory requirements:

1.1. 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—

134(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) (vii) 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.

1.2. SCHEDULE IV [Section 149(8)] CODE FOR INDEPENDENT DIRECTORS

II. Role and functions: *The independent directors shall:*

*(1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, **risk management**, resources, key appointments and standards of conduct;*

*(4) Satisfy themselves on the integrity of financial information and that financial controls and the systems of **risk management** are robust and defensible;*

1.3. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

4. (2) (f) (ii) Key functions of the board of directors:-

*(1) Reviewing and guiding corporate strategy, major plans of action, **risk policy**, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.*

*(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for **risk management**, financial and operational control, and compliance with the law and relevant standards.*

2. Objectives of the Policy

This document lays down the framework of Risk Management at HMT Limited (hereinafter referred to as the ‘Company’) & its Subsidiaries and defines the policy for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in the business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

The Company’s Risk Management policy covers particularly those risks which can threaten the existence of the Company. At the same time, the Company will also determine such risks which are within the limit of risk acceptance. The policy will be followed by detailed Risk Management guidelines and action to be taken to identify, avoid, mitigate, and transfer or to monitor the risk.

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.

The objective of the Risk Management Policy Document is to ensure that the company has proper and continuous risk identification and management process. The detailed objectives that are expected to be achieved through implementation of Risk Management Framework laid down in this policy are:

- a. Promote an enterprise wide approach by integrating risk management processes with: business strategy; project management; process and decision making; audit and general governance functions.
- b. Enable implementation of controls that are structured to promote effective realisation of objectives; provide reasonable assurance to the stakeholders;
- c. Identifying and ranking risks inherent in the organization’s strategy including its overall goals and appetite for risk;
- d. Selecting the appropriate risk management approach and transferring or avoiding those risks that the business is not willing or competent to manage;
- e. Implementing controls to manage the risks;
- f. Monitoring the effectiveness of risk management;
- g. Promote consistency and transparency in methodology, assessment and management processes.
- h. Promote proactive recognition of external factors and anticipate uncertainties that may affect the achievement of strategy.
- i. Sponsor confidence in operations, management decisions and certainty regarding expected outcomes.
- j. Protect the interests of the shareholders.
- k. Sponsor innovation and maximize value from assets, ventures and opportunities.
- l. Recognize that timely and accurate monitoring, review, communication and reporting of risk is critical to:
 - i. providing early warning mechanisms for the effective management of risk occurrences and consequences;
 - ii. providing reasonable assurance to management, the Board and shareholders;

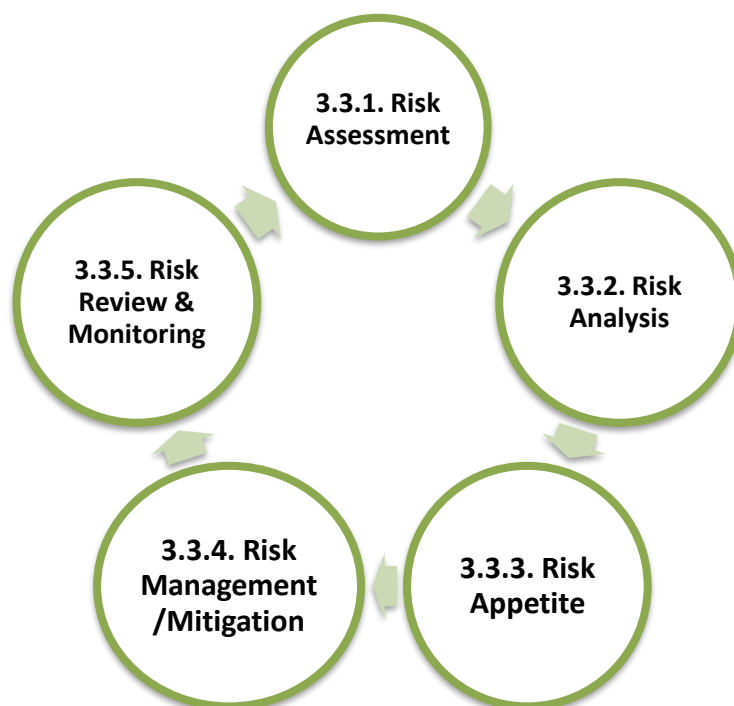
3. Introduction to Risk Management

3.1 Risk is any event/non-event, the occurrence/non-occurrence of which can adversely affect the ability of an organization to achieve its objectives and fulfill its mission.

3.2 Risk Management is a structured, consistent and continuous process/cycle of identifying risks evaluating their potential consequences and determining the most effective methods of responding to them (i.e. of reducing the chances of them occurring and reducing the impact if they do occur) . The cycle is completed by a system of regular monitoring and reporting.

3.3 Steps in Risk Management

Risk management is a shared responsibility. The risk management process model includes the following key activities, performed on a continuous basis:



3.3.1 Risk Assessment:

This step involves understanding and listing of the potential threats that may affect the realization of the key success parameters, including the objectives of the organization or a project. Risk assessment involves identification and prioritization of risks. Likelihood and Impact of risk events have to be assessed for the purpose of analyzing the criticality. The potential impact may include:

- a. Financial loss;
- b. Loss of talent;
- c. Non-compliance to regulations and applicable laws leading to fines, penalties and even closure of the Company under Companies Act, 2013/ Insolvency and Bankruptcy Code, 2016, etc.
- d. Health, Safety , loss of life , damage to property and Environment related incidences;
- e. Business interruptions / closure;
- f. Loss of values, ethics and reputation.

The likelihood of occurrence of risk is rated based on number of past incidences in the industry, previous year audit observations, Government Policies, information from competition, market data, future trends or research reports.

Risk may be evaluated based on whether they are internal or external, controllable or non-controllable, inherent and residual.

3.3.1.1 Risk Identification:

Once the objectives and assumptions of the organization or proposed scheme/activity have been established, the potential risks that may have an adverse effect on the achievement of these objectives are identified.

This involves continuous identification of events that may have negative impact on the Company’s ability to achieve goals. Processes have been identified by the Company and their key activities have been selected for the purpose of risk assessment. Identification of risks, risk events and their relationship are defined on the basis of discussion with the risk owners and secondary analysis of related data, previous internal audit reports, information from competition, market data, Government Policies, past occurrences of such events etc.

3.3.1.2 Risk Prioritization

Risk prioritization is the process of identifying the key risks. Risks are determined as priority depending on their analysis which is based on significance of their impact on the realization of the objectives of the organization/event/activity/scheme.

3.3.2 Risk Analysis

Risk Analysis is to be conducted using a risk matrix for likelihood and Impact, taking the existing controls into consideration. Risk events assessed as “high” or “very high” may go into risk mitigation planning and implementation; low and medium risk to be tracked and monitored on a watch list.

The Risk Reporting Matrix below is used to determine the level of risks identified.

A risk reporting matrix is matched with specific likelihood ratings and Impact ratings to a risk grade of low (green), medium (yellow), high (amber) or very high (red).

Risk Reporting Matrix

Consequences	Likelihood				
	1	2	3	4	5
	Rare	Unlikely	Possible	Likely	Almost certain
5. Very High	Yellow	Amber	Amber	Red	Red
4 High	Yellow	Yellow	Amber	Red	Red
3 Medium	Green	Yellow	Amber	Amber	Amber
2 Low	Green	Yellow	Yellow	Yellow	Amber
1 Insignificant	Green	Green	Green	Yellow	Yellow

Risk Score = Business Impact x Likelihood	
More than 15	Very High
9 to 15	High
4 to 8	Medium
3 or less	Low

3.3.3 Risk Appetite

Risk appetite is the amount of risk an organization is willing to accept in pursuit of value. There are certain risks that the management may accept and tolerate. Example: Delay in payment to suppliers in the absence of sufficient funds may be a likely event but management is ready to tolerate it for a few weeks, being within risk appetite of the company. Whereas default in payment of statutory dues is very high risk on financial management (being interest

bearing) and on the reputation of the company. Delay in the recovery of dues from sundry debtors is a very high risk on the financial management front.

3.3.4 Areas for Risk Management Initiatives

Risk Management

Risk Management is a continuous process of analyzing and availing the opportunities and managing threats faced by the Company in its efforts to achieve its goals, and to ensure the continuity of the business. Risks can be internal or external.

Importance of Risk Management

A certain amount of risk taking is inevitable if the organization is to achieve its objectives. Effective management of risk helps to manage innovation and improve performance by contributing to:

- a. Increased certainty and fewer surprises,
- b. Better service delivery,
- c. More effective management of change,
- d. More efficient use of resources,
- e. Better management at all levels through improved decision making,
- f. Reduced waste and fraud, and better value for money,
- g. Management of contingent and maintenance activities.

Management strives to ensure a policy of strong corporate ethics that are more about the culture of the organization rather than an outcome of legal provisions. Thus, it maintains healthy internal systems and practices. Management has identified certain areas of risk as listed below, where the Organization is vulnerable, along with actions to deal with the same and thereby mitigate or eliminate such risks. **The main Risk Areas and control mechanism given below are to help the Company and Units/ Subsidiaries to build further and they are by no means exhaustive.** Based on this policy framework, all the subsidiaries and Units will draft detailed Risk Management and internal control mechanism **within six months** of approval of the policy. The risks have been classified as follows:

3.3.4.1 Business Risks:

a) Concentration risk:

- i. Company derives revenue from multiple products, multiple customers across geographic regions. There are a lot of industries that have come up in the recent past that manufacture machine tools. Thus company will endeavor to remain diversified and mitigate concentration risk.

Risk management:

- ii. There is need for HMT to diversify in the field of technology to avoid the risk of being out of market.

b) Competition risk:

We operate in a competitive market and expect competition to increase further in the future. There is risk of losing goodwill and clientele, if there is delay or defects in the product supplied.

Risk management:

- i. Need to strive to meet the challenges by meeting customers' demands with product quality and best industrial practices in providing better services.

- ii. Need to have an Internal Quality check mechanism and strive towards **zero defects** and on-time delivery.
- iii. Selection of technology, standardization of processes, upkeep of assets, provide SOPs, training, etc.
- iv. Adherence to delivery schedules, meeting targets.
- v. Close watch on competitor's strengths and weaknesses, competition

c) Business dynamics Risk:

- i. Organisation and management risks
- ii. Production, process and productivity risks
- iii. Business interruption risks consisting internal and external factors

Risk management:

- i. The Company should functions under a well defined organization structure with focus on role clarity.
- ii. Long term production plan and monitoring its implementation

d) Price risk:

HMT manufactures and sells products competing with numbers of players in India and abroad. Increasing competition puts pressure on realizations.

Risk management:

- i. Keep a close watch on market dynamics
- ii. The Company has to increase operational efficiency and continue to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.
- iii. Effective steps are taken to reduce cost of production on a continuous basis through focus on cost and realization, budgetary controls, management control Continuously work on cost control, improved yields etc., to maintain margins.
- iv. The pricing policy should be transparent and competitive to prevent risk of being out of market.
- v. For reducing cost of production the business processes need to be reviewed to manufacture based on the manpower and material estimates.
- vi. The rejections to be reduced, through proper maintenance/ replacement of machinery and by fixing responsibility for negligence leading to rejections.
- vii. Price can be competitive if the cost of production is kept under control.

e) International operations risk:

The inherent risks in conducting business internationally include:

- i. Country risk or risk of the region that we operate in, changes in political-economic conditions, laws or regulatory requirements.
- ii. Country specific tax obligations
- iii. Burden of complying with various foreign laws.
- iv. Currency fluctuations
- v. Dependence on imports

Risk Management:

- i. Company to avoid high-risk countries and even if it does business with such countries, it shall minimize/hedge the risk by routing the transactions through a third party/ by taking appropriate insurance and forward cover for FOREX fluctuations etc

3.3.4.2 Market Risks / Industry Risks:

- i. Raw material availability and movement of rates
- ii. Demand and Supply Risks
- iii. Quantities, Qualities, Suppliers and lead time
- iv. Competition
- v. Increase in commercial costs

Risk management:

- i. Proper systems should be in place in relation to accounting and maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- ii. 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.
- iii. Alternative sources are developed for uninterrupted supply of raw materials.
- iv. Procurement plan based on the orders received and the standard estimates for manufacturing of each type of Machine Tools, preventing excess procurement and rejections. Economic Batch Quantity (EBQ) should be kept in mind for both procurement and manufacture.
- v. 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 removing bottlenecks in procedures, enhancement of installed capacity, utilisation etc.
- vi. Proper inventory control systems to be reviewed and improved upon so that there is no excess inventory or excess procurement.
- vii. In order to reduce and mitigate identifiable risks, company to have insurance covers from reputed insurance companies and shall keep the company's properties and insurable interests insured.

3.3.4.3 Disaster Risks:

- i. There is need to cover against internal risks.
- ii. External risks like Natural disasters, Fire, accidents, natural calamities, change in government policies, wars etc.

Risk Mitigation Measures:

- i. The properties of the company are insured against natural risks, like fire etc. with periodical review of adequacy, rates and risks covered.
- ii. Fire extinguishers have been placed at fire sensitive locations. Well designed hydrant systems and training of personnel for the same.
- iii. Standard Operating Procedure ('SOP') to be prepared for countering any unexpected risks.

3.3.4.4 Financial Risk:

3.3.4.4.1 Financial solvency and Liquidity Risk:

- i. Liquidity risk includes operational funding liquidity risk and asset liquidity.
- ii. Lack of Operational funding liquidity is with reference to daily cash flow.

- iii. Asset liquidity refers to the relative ease with which a company can convert its assets into cash should there be a sudden, substantial need for additional cash flow.
- iv. General or seasonal downturns in revenue can present a substantial risk if the company suddenly finds itself without enough cash on hand to pay the basic expenses necessary to continue functioning and to pay salary and statutory dues.
- v. Debt trap, excessive loan, excessive interest bearing liabilities, selling land to meet revenue expenditure.

Risk Management:

- i. Cash flow management is critical to business success
- ii. Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- iii. Annual and quarterly budgets should be prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- iv. The expenditure of non-manufacturing offices viz. HMT Machine Tools Limited Directorate, Corporate Head Office, HMT Limited (CHO- HMT Limited), Auxiliary Business Division, Bengaluru (ABD, Bengaluru) and Marketing Offices should be based on annual budget.
- v. Manufacturing units to prepare budget based on Annual Targets
- vi. Daily and monthly cash flows to be prepared and monitored at senior levels to access the fund requirements and ensure utilization of funds in an effective manner.
- vii. **Cash management services** are to be availed from Bank to ensure efficient collection and utilization of funds.

3.3.4.4.2 Financial Reporting Risks & Risk of Corporate Accounting Fraud:

- i. Changing laws, regulations and standards relating to accounting create uncertainty for the Company.
- ii. Ambiguity in rules may result in continuing uncertainty regarding compliance matters.
- iii. Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating expenses, understating revenues etc.

Risk management:

- i. Financial audit provides reasonable assurance that the financial statements of the organization present a true and fair view. In conducting financial audits, auditor determines whether financial information is presented in accordance with the applicable accounting standards including specific requirements of financial disclosure and whether the organization has complied with laws and regulations applicable to it.
- ii. The Company to maintain high standards of compliance and to comply with evolving laws, regulations and standards. Non-compliance is a high risk area.
- iii. Conducting risk assessments on accounting frauds,
- iv. Enforcing and monitoring code of conduct for key executives
- v. Deploying a strategy and process for implementing the new controls.
- vi. Adhering to internal control practices that prevent collusion and concentration of authority.

- vii. Employing mechanisms for multiple authorization of key transactions with cross checks
- viii. 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.
- ix. Adoption of Integrity pact with the vendor for major purchases/contracts as per CVC guidelines.

3.3.4.4.3 Credit risk:

- i. Downgrading of Company's Rating.
- ii. Faulty procurement practices.
- iii. Pending cases where payments have not been received for a long time from sundry debtor. Waiver of Sundry debtors as a matter of routine without making any effort to recover them
- iv. Interest rates fluctuate frequently. Risk is involved when company has taken loan or has invested surplus funds.
- v. Defaults in payments
- vi. Non-receipt of full payment due to Liquidated damages, defects in products, delay in after sale services leading to extension of Performance Bank Guarantee.

Risk Management:

- i. Velocity of a company's debt collection should match the speed by which payments are being released to creditors and suppliers
- ii. Lay down extensive norms and SOP related to credit period and payment terms and device a credit approval process.
- iii. Managing the risks from interest rate fluctuations should be done through close watch on its trend and review the movements regularly and hedge the risk with appropriate instruments.
- iv. Surplus funds to be invested as per Investment policy on surplus funds.
- v. Before investing money for short terms, the interest rates should be obtained through tender seeking preferential rates.
- vi. Efforts should be made to repay the costly loan/liability first instead of putting funds in Fixed Deposit ('FD'), as Liquidity in the banks has drastically decreased the interest rates offered by the banks for FD.

3.3.4.4.4 Foreign exchange risk:

- i. Cases where payments are in foreign exchange, it is crucial to monitor movements in the FOREX market.

Risk management:

- i. Managing the risks from foreign currency rate fluctuations, through close watch on FOREX market and its trend and review the movements regularly and hedge the risk with appropriate instruments.

3.3.4.4.5 Statutory Compliance Risk

- i. Default / delay in payment of statutory dues like Provident Fund, Gratuity, taxes, etc leads to multiplying effect on liabilities in the form of penal interest
- ii. Delay in approval of Annual/quarterly financial results & other Non-Compliance related to SEBI/ Listing/ Companies Act/ other applicable Acts etc shall lead to heavy penalty on the Company

Risk management:

- i. Regular tracking of the due dates for making the statutory payment
- ii. Ensuring sufficient bank balance for timely payment of statutory dues.
- iii. Making Unit chief personally responsible for defaults in payment of statutory dues
- iv. Statutory dues and other liabilities to be discussed in Board meeting of each subsidiary and that of the Holding company
- v. Regular monitoring/follow up action from all units/subsidiaries for preparation of financial statements
- vi. Educate concerned on new Accounting policies/training on new accounting software etc.

3.3.4.5 Technology Obsolescence Risk

A lot of new companies are coming up with technological collaboration with foreign leaders in the field of Machine Tools Technology. This would be a serious threat to the company.

Risk Management:

- i. In order to compete, the company should take up technology Upgradation.
- ii. Technological obsolescence to be evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.

3.3.4.6 Human Resource Risks

- i. Labour turnover risk.
- ii. Unskilled labour risks.
- iii. Posting people who are **not** professionally qualified for that particular job.
- iv. Employee retention risk. Young officers resigning to join other companies.
- v. Risk of unrest. Risks due to Strikes/Lockouts.

Risk management:

- i. Proper training and development, incentives and reward system for employees based on the production and quality of output.
- ii. Ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence. Job assignment based on professional qualification.
- iii. Company to have proper recruitment policy for recruitment of personnel at various levels in the organization and have clear career progression plan.
- iv. 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.
- v. Inculcate in employees a sense of belonging and commitment and also effectively train them in spheres relating to their specialization as well as in other than their own specialization.
- vi. Activities relating to the Welfare of employees are undertaken.
- vii. Employees are not discouraged from giving suggestions for improvements in systems and discuss any problems with their superiors.
- viii. Efforts are made to keep cordial relations with employees at all level.
- ix. First aid training is given to watch and ward staff and safety personnel. Also arrange health checkup camps.

- x. Transparency/ proper documentation in HR policies, appraisal system, promotions, career progression and transfers.

3.3.4.7 Environmental Risk:

- i. The Company endeavors to protect the environment in all its activities, as Company social responsibility.
- ii. The legal risk in this regard is when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding, is an offence.

Risk management:

- i. Installation/maintenance of Effluent Treatment Plants and sewage treatment plants at its various manufacturing units.
- ii. Setting up of Rain water harvesting wells at its various manufacturing units to meet water requirement for cleaning and gardening etc.
- iii. Extensive plantation of trees around manufacturing plants to be undertaken for green belt development.
- iv. Solar energy to be generated /utilized through MNRE schemes or through Nodal agency on RESCO mode that involve NIL capital investment.
- v. Focus on efficient operations of environment protection system and equipments.

3.3.4.8 Legal Risks:

- i. 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.
- ii. Unfair policies and ineffective grievances redressal mechanism contributing to increase in legal cases by employees

Risk Management:

- i. 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.
- ii. 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.
- iii. The Company to establish a compliance management system in the organization and Company Secretary being the focal point, get the quarterly compliance reports from various unit heads and place before the Board at every quarterly Board meeting of the Company.
- iv. Legal consultants to vet all documents where risk is involved
- v. Status of all legal cases and the expenditure incurred on layers by all subsidiaries and Units to be reviewed by Corporate Head Office and placed before Audit Committee.

3.3.4.9 IT System Risks:

- i. IT System capability

- ii. IT System reliability
- iii. Data integrity risks
- iv. Data corruption/loss/cyber security risk
- v. Risk relating to theft of hardware and soft ware

Risk Management:

- i. Company should deploy original licensed software
- ii. IT department maintains and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- iii. The Company ensures “Data Security”, by having access control/ restrictions.
- iv. Data backups are taken regularly and in a methodical way and stored away from the main systems/servers.
- v. Procurement/Installation of anti-virus software.
- vi. Information System (IS) Audit is also called Information Technology (IT) audit which is defined by Comptroller & Auditor General of India, as *‘the process of collecting and evaluating evidence to determine whether the computer system safe guards assets, maintains data integrity, allows organizational goals to be achieved effectively and uses resources effectively’*.
- vii. Company to carry out IT Audit to ensure effective use of the resources.

3.3.4.10 Land Risk

Land management is the process of protection of land, managing the use and development of land resources in a sustainable way. It is the process by which resources of land are put into good use.

The Company has an inventory of land both in urban and suburban areas across the country. Effective utilization of land resources is an importance source of revenue. There is a risk of encroachment which leads to litigation and poor land management.

Risk Management:

- i. Protection from encroachment by protecting the land physically through construction boundary wall/ fences after survey/measurement of the land.
- ii. Having Land Management Policy & Guidelines for revenue generation
- iii. Clear legal title on Property through updation of revenue records/mutation of property records
- iv. Valuation of Land to assess the fair value both circle rate and CPWD rate on periodic basis.
- v. Property tax payment in time
- vi. Record keeping/accurate information about land.
- vii. Periodical audit and physical verification of land
- viii. Maintain updated Land registers and maps.
- ix. Taking immediate action on any encroachment efforts.
- x. Making maximum use of the vacant land for revenue generation

3.3.5 Risk Management and Internal Control

Effective risk management depends on risk management planning; early identification & analysis of risks; early implementation of corrective actions; continuous monitoring & reassessment; communication, documentation, and coordination.

There are various ways of managing Risks depending on their gravity and potential. Major ways are :

- a) **Tolerate/Accept the Risk:** This strategy is adopted when impact of risk is minor. In this case risk is accepted as cost of mitigating the risk can be high. However, these risks are reviewed periodically to check their impact remains low else appropriate controls are used.
- b) **Terminate:** In this case the activity, technology or task which involves risks is not used/conducted to eliminate the associated risk.
- c) **Transfer:** In this approach the associated risks are shared with the trading partners and vendors etc. e.g. outsourcing IT services to IT service Providers who have better capabilities to manage IT related risks. Insurance is another example of sharing risks.
- d) **Treat:** In this case, organizations use appropriate controls to treat the risks e.g. using an antivirus software is a control for risks related to virus, monitoring debt recovery at senior level at regular intervals for speedy recovery is another example.
- e) **Turn Back:** This strategy is adopted when impact of risk is expected to be very low or chances of occurring risk are minimum in such cases management decides to ignore the risk .Eg. Risk of damage to factory by earthquake may be next to impossible in Bangalore thus it may not form part of risk potential areas and can be simply ignored.

3.3.5.1 Risk Monitoring

Refers to the review and monitoring of the execution of the Risk management processes at defined periodicities (monthly/quarterly/annually etc) and ensuring that the key risks are being effectively addressed by the laid down action plan.

It also focuses on identification of additional risks and concerns that may arise during the implementation of the scheme and taking the necessary action required to address them.

3.3.5.2 Risk Assurance

Refers to an independent assurance on the effectiveness with which risks are addressed and internal controls are operating in the programme. This is done through audit and special reviews carried out by agencies appointed by the organization.

3.3.5.3 Control and Monitoring Mechanism

Audit Committee appoints independent Chartered Accountants to review the internal controls and systems periodically and report their observations and suggestions for improvement. Audit Committee of the Board reviews the observations of internal auditors and gives suitable advice to the management.

3.3.5.4 Evaluation of Internal Controls

The internal audit evaluates the effectiveness of risk management and Internal Controls relating to the organization's governance, and specifically relating to :

- i. Reliability and integrity of financial and operational information.
- ii. Effectiveness and efficiency of operations and programs,
- iii. Safeguarding of assets.

- iv. Compliance with laws, regulations, policies, procedures and contracts
- v. The potential for the occurrence of fraud and how the organization manages fraud risk.

Internal controls are safeguards that are put in place by the management of an organisation to provide assurance that its operations are proceeding as planned. Internal Control is the responsibility of the management and the role of Internal Audit is to assess and evaluate them. Evaluation of Internal control helps to provide reasonable assurance that the organization:

- i. Adheres to laws, regulations and management directives;
- ii. Promotes orderly, economical, efficient & effective operations & achieves planned outcomes;
- iii. Safeguards resources against fraud, waste, abuse and mismanagement;
- iv. Provides quality products and services consistent with the organization's mission;
- v. Develops & maintains reliable financial & management information and timely reporting.

4. Responsibilities

Responsibility for risk management is shared across the organisation. Key responsibilities include:

Risk Ownership and management – Management should perform and monitor day-to-day risk management activity. The Management is responsible for periodically reviewing the group's risk profile, fostering a risk-aware culture and reporting to the Board Level Risk Management Committee/ Risk Management Committee on the effectiveness of the risk management framework and of the company's management of its material business risks.

More specifically, Management is responsible for:

- i. Promoting Risk Policy Framework;
- ii. The design and implementation of cost effective risk management and internal control systems in accordance with the guidelines to manage risk, encourage efficiencies and take advantage of opportunities;
- iii. Continuous monitoring and reporting of the effectiveness of risk controls;
- iv. Monitoring compliance, investigating breaches, recommending and/or approving improvement opportunities.
- v. Create a positive control environment by:
 - Setting a positive ethical tone
 - Removing temptations for unethical behavior
- vi. Preparing a written code of conduct for employees
- vii. Ensure that personnel have/ maintain a level of competence to perform their duties.
- viii. Clearly define key areas of authority and responsibility
- ix. Establish appropriate lines of reporting
- x. Establish management control policies and procedures based on analysis of risk
- xi. Use training, management communications to reinforce the importance of control management

4.1 Employees are accountable for actively applying the principles of risk management within their areas of responsibility and fostering a risk-aware culture. More specifically, Employees are responsible for:

- i. Report to their immediate leader or supervisor, any real or perceived risks that become apparent and may significantly affect the Company's: Commercial viability; Profitability; Assets; Business continuity; Customers; Regulatory and/or legal obligations; Reputation; and/or People and/ or their safety.
- ii. Report to their immediate leader or supervisor, any real or perceived risks that company's operations may significantly affect the broader: Environment; and/or Community.
- iii. Look for opportunities to improve operational efficiencies and optimize outcomes.

4.2 Risk Management Committee:

- i. Maintain oversight and monitor the effectiveness of internal controls and risk management activities.
- ii. Risk Management Committee assists the Company in overseeing the company's risk profile and is responsible for overseeing the effectiveness of management's actions in the identification, assessment, management and reporting of material business risks.
- iii. Ensure independence of Internal Audit from management of subsidiaries & Units.
- iv. Any deviations will be reported by Internal Risk Management Committee to Board Level Risk Management Committee.

4.3 Responsibility of Internal Auditors:

Internal Audit provides independent assurance on the effectiveness of internal controls and the Risk Management Framework. It is responsible for:

- i. Developing and implementing an annual audit plan having regard to material risks
- ii. Reviewing the effectiveness of company's risk management policy and risk management processes; and Notifying Group Risk of new and emerging risks identified in the course of implementing the audit plan and, where necessary, modifying the audit plan to take account of the impact of new risks. Ensure professional competence of audit staff
- iii. Advise management on areas of risk
- iv. Establish auditing strategic plans and goals
- v. Perform audit of operations
- vi. Evaluate adequacy and effectiveness of Internal Control mechanism
- vii. Recommend ways to improve operations and strengthen controls
- viii. Follow up to ensure recommendations are fully and effectively implemented.

4.4 External/statutory auditors

Through its reports inter alia inform Board that management has developed and implemented an effective Risk Management framework and also effectiveness of the Risk Management Framework and Internal Control Mechanism

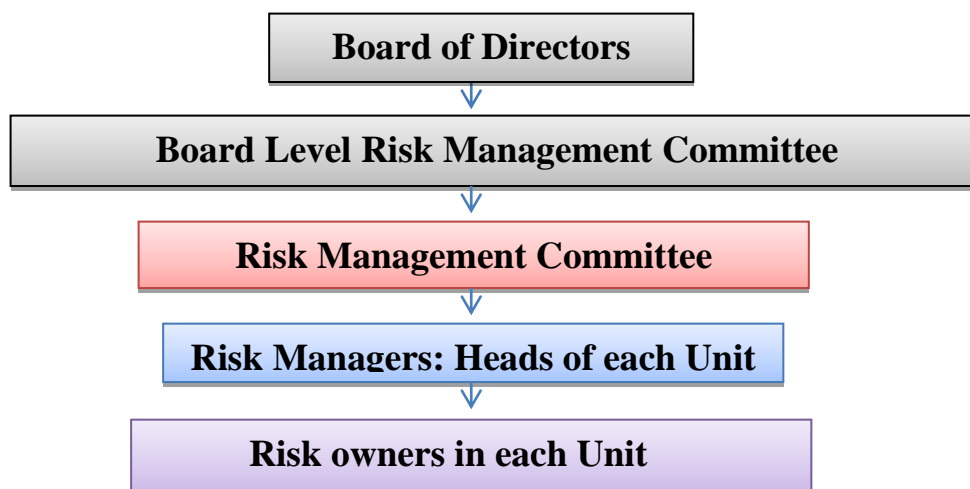
4.5 Common Internal Control practices:

- i. Performance indicators are developed & monitored
- ii. Secure and safeguard all vulnerable assets
- iii. An organization's workforce is effectively trained and managed so as to achieve results

- iv. Key duties and responsibilities are divided among people to reduce the risk of error & fraud.
- v. Information processing is controlled Eg. Audit checks of data entry
- vi. Access to resources and records is limited to authorized individuals. Accountability for their custody and use is assigned and maintained
- vii. Internal control and all transactions and other significant events are clearly documented and the documentation is readily available for examination
- viii. Transactions & other significant events are authorized and executed only by authorized person
- ix. Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions

5. Risk Organization Structure

For successful implementation of risk management framework, it is essential to nominate senior management individuals to lead the risk management committee. Periodic workshops will be conducted to ensure awareness of the policy and the benefits of following them. This will ensure that risk management is fully embedded in management processes and consistently applied. Senior management involvement will ensure active review and monitoring of risks on a constructive 'no-blame' basis.



	Constitution	Roles and responsibilities	Accountable to
Risk Management Committee (RMC)	Constituted with the approval of C&MD;	<ul style="list-style-type: none"> • Ensure that the Risk Management Policy is being followed and effectively contributing to early identification of risks and proper mitigation process. ▪ Review and approve list of risk identified, risk treatment and control mechanism. ▪ Lay down procedure to inform the Board Level Risk Management Committee about the risk assessment and minimization procedure. • Circulate /give directions to all Units/Compile status reports for Board Level Risk Management Committee • Periodic Updation of all policies & SOP 	Board Level Risk Management Committee

		& manuals would be monitored	
Risk Managers	Head of each location of operations viz. Unit.	<ul style="list-style-type: none"> ▪ Responsible for risk identification ▪ Evaluate the risk and mitigation plan recommended by Risk Owners. ▪ Hold its meeting at least once a month. ▪ Direct Risk Owners for mitigating the risks identified. ▪ Will draft risk analysis, risk treatment and control mechanism. ▪ Each unit shall draft their risk manual based on this policy document. ▪ Risk Manager will compile the risk document based on report of risk owners. 	Risk Management Committee
Risk Owners	Nominated by Risk Managers. Each of the department of Units and CHO shall be represented by a nominated Risk Owner. Viz.: Production, Marketing, Purchase, Inventory and store, Accounts, Finance, Human Resource, Administration, Quality Control, etc.	<ul style="list-style-type: none"> ▪ Will be responsible for identification and mitigation of risk of their respective areas. ▪ Shall present the new risks identified along with proposed mitigation plan to Risk Manager ▪ Identify future risk, evaluate critically the risks and formulate the steps of mitigation and then submit reports to Manager ▪ Submit reports to Risk Management Committee at CHO ▪ All risk proposals to be submitted in the Risk Management Proposal template incorporated in guidelines. 	Risk Managers

6. Disclosures and related policies

The Board's report shall contain a statement indicating the 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.

This Risk Management Policy is supported by, and linked to, specific HMT policies and standards as issued from time to time. These policies and standards include, but are not limited to:

- a. Personal Manual
- b. Corporate Code of Conduct
- c. Accounting Policies
- d. Anti-Sexual Harassment – Safe Work Environment Policy
- e. Whistle Blower Policy
- f. Company Social Responsibility as per Government guidelines
- g. Procurement Procedures

7. Approval and Amendments

This Policy was approved by the Board of the Company at its meeting held on 19.06.2018. Any amendment to the policy will be done with the approval of the Board Level Risk Management Committee / Board of the HMT Limited (Amended on 09.08.2024). This Policy should be reviewed every two years or earlier if required by a change in circumstances.

The Board shall have the discretion to deal with certain 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 Board Level Risk Management Committee.

Disciplinary action shall be initiated for any violation of this policy or the guidelines framed there under.

Therefore, this Policy prescribes that violation of the provisions applicable to Risk Management Framework is something the Company cannot afford to risk.
