

**RISK MANAGEMENT POLICY**  
**OF**  
**HEXA TRADEX LIMITED**  
**(W.E.F 01.10.2014)**

## **BACKGROUND**

This document lays down the framework of Risk Management at Hexa Tradex Limited (hereinafter referred to as the 'Company') 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 any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

## **OBJECTIVE**

The objective of Risk Management at Hexa Tradex Limited is to create and protect stakeholder's value by minimizing threats or losses, and identifying and maximizing opportunities. An enterprise-wide risk management framework is applied so that effective management of risks is an integral part of every employee's job. The objectives of the policy are:

1. To provide a framework that enables future activities to take place in a consistent and controlled manner.
2. To improve decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats.
3. To contribute towards more efficient use/ allocation of the resources within the organization.
4. To protect and enhance assets and company image.
5. To reduce volatility in various areas of the business.
6. To develop and support people and knowledge base of the organization.
7. To optimize operational efficiency

## **REGULATORY**

Risk Management Policy is framed as per the following regulatory requirements:

### **A. COMPANIES ACT, 2013**

#### **1. 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—

(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.

#### **2. Section 177(4) 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.

**3. 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;

**B. Clause 49**

**Key functions of the Board**

The board should fulfil certain key functions, including:

a. 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.

g. Ensuring the integrity of the company'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.

**D. Role of Risk and Audit Committee**

The role of the risk and Audit Committee shall include the following:

11. Evaluation of internal financial controls and risk management systems;

**VI. Risk Management**

A. The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.

B. The Board shall be responsible for framing, implementing and monitoring the risk Management plan for the company.

C. The Board shall define the roles and responsibilities of the Risk Management and Audit Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit.

**Information to be placed before Board of Directors**

14. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

Hexa Tradex Limited being a listed company is required to adhere to the regulations made both by the Companies Act, 2013 and Clause 49 of the Listing Agreement governed by the Securities and Exchange Board of India (SEBI). Where any stipulation is common between the regulations, more stringent of the two shall be complied with.

## **APPLICABILITY**

This Policy shall come into force with effect from 1st October, 2014.

## **DEFINITIONS**

**"Risk and Audit Committee or Committee"** means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing agreement.

**"Board of Directors" or "Board"** in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013).

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

## **POLICY**

Before proceeding to the policy attention is drawn to the roles that the Board and Risk and Audit Committee are required to play under the above regulations governing Risk Management:

The Board's role under both the regulations is to ensure framing, implementing and monitoring risk management plan, having in place systems for risk management as part of internal controls with duty being cast upon Independent Directors to bring unbiased angle to the Board's deliberations on making risk management systems more robust.

Audit Committee's role is evaluation of the risk management systems.

The Risk Management Committee oversee the operation of risk management system.

This policy shall complement the other policies of Company in place e.g. Related Party Transactions Policy, to ensure that the risk if any arising out of Related Party Transactions are effectively mitigated.

## **PRINCIPLES**

The Board has to review the business plan at regular intervals and develop the Risk Management Strategy which shall encompass laying down guiding principles on proactive planning for identifying, analyzing and mitigating all the material risks, both external and internal viz. Environmental, Business, Operational, Financial and others. Communication of Risk Management Strategy to various levels of management for effective implementation is essential.

Risk Identification is obligatory on all vertical and functional heads who with the inputs from their team members are required to report the material risks to the Risk Management Committee along with their considered views and recommendations for risk mitigation.

Analysis of all the risks identified shall be carried out by Risk Management Committee through participation of the vertical/functional heads and a preliminary report thus finalized shall be placed before the Audit Committee who will report to the Board.

The following steps to be taken:

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

- i. Strategic
- ii. Operational
- iii. Financial
- iv. Hazard

**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, Hazard
Quantification of Risk	Significance and Probability
Risk Tolerance/ Appetite	Loss Potential and Financial Impact of Risk
Risk Treatment and Control Mechanism	a) Primary Means b) Level of Confidence c)Monitoring and Review
Potential Action for Improvement	Recommendations to Reduce Risk
Strategy and Policy Development	Identification of Function Responsible to develop Strategy and Policy

**Risk Evaluation:**

After risk analysis, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks and whether each specific risk to be accepted or treated.

**Risk Estimation:**

It can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences.

Impact level on performance/profit – Both Threats and Opportunities

**Reporting****1. Internal Reporting**

- a) Risk and Audit Committee
- b) Board of Directors
- c) Vertical Heads
- d) Individuals

**2. External Reporting**

To communicate to the stakeholders on regular basis as part of Corporate Governance.

**Development of Action Plan**

The Board has constituted a Risk Management Committee and Audit Committees. Risk Management Committee consisting of Two (2) Directors out of which One (1) is Managing Director and other is Independent Directors and One (1) officers of the Company. The Audit Committee consisting of Three (3) Directors out of which Two (2) are independent Directors. The Board has defined the Committee's role and responsibility. The Committee shall not only assist in implementation of the Risk Management Plan of the Board but also monitor its implementation and review. The members of the Risk Management and Audit Committee shall discharge the role of "Think Tank", ideate and bounce off their collective suggestions to the Board for periodic updating of the Risk Management Plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses Hexa Tradex Limited is engaged in or shall undertake.

Audit Committee shall critically examine the report of Risk Management Committee and each identified risk shall be assessed for its likely impact vis a vis the resources at the Company's disposal.

**Guidelines to deal with the risks**

Business Plan including Capital Expenditure and Fund Flow Statement for each segment together with SWOT analysis, data on Production Planning, Materials Management, Sales and Distribution, Delivery Schedules, Assets, Accounts Receivables and Payables as well as Regulatory Regime applicable shall be reviewed in the light of the material risks identified. Through deliberations of the Committee a

comprehensive plan of action to deal with the risks shall be developed and guidelines flowing from such plan shall be communicated to the employees concerned for mitigation of the risks.

### **Board Approval**

The Action Plan and guidelines decided by the Risk Management Committee and Audit Committee shall be approved by the Board before communication to the personnel for implementation.

The Board shall approve the Risk Management (including Risk Treatment) strategy, control structure and policy guidelines and delegate authority and accountability for risk management to the Company's executive team.

The guidelines shall include prescription on:

### **Risk Treatment**

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

### **Risk Registers**

Risk Registers shall be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Risk Managers and Risk Officers to be identified for proper maintenance of the Risk Registers which will facilitate reporting of the effectiveness of the risk treatment to the Risk Management Committee and Audit Committee, and the Board.

Enterprise Risk Planning (ERP package) shall play a key role in timely availability of all data/reports required for the Committee to develop the Action Plan as stated above.

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 Audit Committee.

## **ROLE OF RISK MANAGEMENT COMMITTEE AND AUDIT COMMITTEE**

The following shall serve as the Role and Responsibility of the Risk Management Committee to evaluate the effectiveness of the Risk Management Framework:

1. To Review of the strategy for implementing risk management policy
2. To examine the organization structure relating to Risk management.
3. Evaluate the efficacy of Risk Management Systems – Recording and Reporting.
4. To review all hedging strategies/risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines
5. To define internal control measures to facilitate a smooth functioning of the risk management Systems.
6. Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management systems.

### **Integration of Risk Management Strategy**

Company's risk management strategy is to be integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aide in establishing competitive advantage and allow management to develop reasonable assurance regarding the achievement of the Company's objectives.

### **Penalties**

The penalties are prescribed under the Companies Act, 2013 (the Act) under various sections which stipulate having a Risk Management Framework in place and its disclosure.

Section 134 (8) (dealing with disclosure by way of attachment to the Board Report): If a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

There are other provisions of the Act as well as SEBI Act which stipulate stiff penalties. Therefore, this Policy prescribes that violation of the provisions applicable to Risk Management Framework is something the Company cannot afford to risk.

### **REVIEW**

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

This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.