BHANSALI ENGINEERING POLYMERS LIMITED

RISK MANAGEMENT POLICY

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

The Policy is attempting to identify and then manage threats that could severely impact 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.

Paragraph (C) of sub-clause IV of Clause 49 of the Listing Agreement states as under
"The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework"

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the Corporate sector in India and has therefore introduced a specific provision vide Section 134(3) (n) of Companies Act, 2013 on Risk Management, 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 organisation.

Risk Management:

i. *The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.*

ii. *The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.*

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 minimise their adverse impact on the organisation.

Risk Strategy:

Bhansali Engineering Polymers Ltd recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. The Company believes that the Risk cannot be eliminated. However, it can be:

i. Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
ii. Reduced, by having good internal controls;
iii. Avoided, by not entering into risky businesses;

iv. Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
v. Shared, by following a middle path between retaining and transferring risk.

The Company is engaged in the business of manufacurting of ABS and SAN polymers and their alloys etc.

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,
- Investments,
- Retention of talent and expansion of facilities.
- Operational Hazards

Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk. 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 risk manager 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.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

Risk Management Framework:

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into

Strategic:

- Organizational Growth.
- Comprehensive range of products.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating new geographic markets.
- Continuing to enhance our industry expertise and technology and technology.
- Enhance our capabilities through technology alliances and acquisitions.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality production.
- Further develop Culture of Innovation.
- Attract and retain quality technical associates and augmenting their training.

Reporting:

- Maintain high standards of Corporate Governance and public disclosure.

Compliance:

- Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary. Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures.

The Company adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Management Committee to deal with the risk mitigation measures effectively.

We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; Subsidiary and Joint Venture level are considered in the risk management framework.
All these components are interrelated and drive the enterprise in mitigating the Risk Management process with focus on three key elements, viz.

(1) Risk Assessment
(2) Risk Management
(3) Risk Monitoring.

Risk Assessment:

Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed.

Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management and Risk Monitoring:

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. **Economic Environment and Market conditions. The Company is engaged in manufacturing of ABS & SAN Polymers and their alloys etc. which is significantly dependent upon imported raw materials viz Acrylonitrile and styrene which is subject to fluctuations entirely depending upon global market conditions. The Company tries to embrace the situation with its proper provisioning etc. for same whenever deemed fit and suitable.**

2. **Fluctuations in Foreign Exchange**

While our functional currency is the Indian rupee, we transact a significant portion of our import in USD and other currencies and accordingly face foreign currency exposure from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

We manage risk on account of foreign currency fluctuations through limited hedging of specific transactions with our Bankers and also act upon the experts' advice. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. 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 hedging the risk to achieve greater predictability and stability. Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with limited hedge cover so that moderate arbitrage efficiency is achieved against the existing borrowing rates of interest. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

3. **Political Environment**

Any adverse change in the political environment of the country, would have an impact in growth strategies of the company. As a policy, however, considering our basic political philosophy, we will review existing and future investment strategies on a continuous basis.

4. **Competition - The Company faces stiff competition from its rival domestic manufacturer and the exporters to India and keeps consistent watch on their price mechanism and supply/demand position to survive in such cut throat competition.**

5. **Inflation and Cost Structure**

At organizational level, cost optimisation and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial model. The focus on these initiatives has inculcated across the organization the importance of cost reduction and control.

6. **Technological Obsolescence**

The Company strongly believes that Technological Obsolescence is a practical reality, hence this is evaluated on continual basis and the necessary investments and collaborations are made to bring the best of the prevailing technology.

7. **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 are creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements remain in conformity with Indian GAAP /Accounting Standards issued by ICAI, (as may be applicable to Company) and requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances including consultation with experts in the field, scrutiny of published data for the particular sector or sphere, comparative study of other available corporate data, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks. We believe that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.

8. **Risk of Corporate accounting fraud:**

Accounting fraud or corporate accounting fraud are business scandals arising out of Misusing or misdirecting of funds, overstating revenues, understating expenses and other malpractices etc. The Company mitigates this risk by:

i. Understanding the applicable laws and regulations
ii. Conducting risk assessments,
iii. Enforcing and monitoring code of conduct for key executives
iv. Instituting Whistleblower mechanisms
v. Deploying a strategy and process for implementing the new controls, whenever required.
vi. Adhering to internal control practices that prevent collusion and concentration of authority
vii. Employing mechanisms for multiple authorisation of key transactions with crosschecks
viii. Scrutiny of management information data to pinpoint dissimilarity/mismatch of comparative figures and ratios
ix. 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 organisation and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.
x. Implementing own Internal Audit System in Company for dealing with its tax matters and financial transactions to determine the appropriateness/genuineness/ legitimacy thereof and also to ensure that the financial expenses of company are within the Policy and Parameters of Company.

9. **Legal Risk:**

Legal risk is the risk in which the Company is exposed to legal action

As 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.

We have an 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 and encourages its employees to place full 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.

10. Quality and Project Management

For years **Bhansali Engineering Polymers Limited** is engaged in manufacturing of ABS & SAN Polymers as per mutually accepted requirements of the Customers.

Our Commitment towards total Quality Management is to forge the Human Resources of our organisation into a team that promotes continual improvement in quality of products and services.

Considerable focus is given to adherence, targeted dates and commitment to quality in every order and customer feedback is studied with personal interaction with them before, during and after processing of material.

Bhansali Engineering Polymers Limited, a pioneer in producing ABS & SAN Polymers and is committed to maximise customer satisfaction and keep a clean and safe environment.

We are certified for ISO 9001-2008 standards in our ABS & SAN Polymer Products.

11. Environmental Risk Management:

The Company endeavours 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.

For control of water pollution the Company has setup sewage treatment plant. It is further used for gardening and plantation and the industrial wastewater generated from the plants is re-circulated into the process.

Extensive plantation of trees around manufacturing plants is undertaken for green belt development. Besides, the company strictly follows the policy and commitment to create green belts in the excavated mining areas and also do this on a continuing basis as and when specified tracts of land are fully and totally mined and vacated.

12. Human Resource Management

"The vision of the Company is to achieve Organisational excellence through innovation"

Human Resources Development (HRD) Department will add value to all its Units and associate companies by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence. Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation.

Risks specific to the Company and the mitigation measures adopted:

1. **Business Operations Risks:**

These risks relate broadly to the company's organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:

a. Organisation and management risks,
b. Business interruption risks,
c. Profitability

Risk mitigation measures:

i. The Company functions under a well defined organization structure.
ii. Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
iii. Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
iv. Proper policies are followed in relation to maintenance of inventories of STBs, consumables and key inputs to ensure their availability for planned distribution programmes.

2. **Liquidity Risks:**

i. Financial solvency and liquidity risks
ii. Borrowing limits
iii. Cash management risks

Risk Mitigation Measures:

i. Proper financial planning is put in place with detailed Annual Business Plans/ Level of Activity Chart which are discussed quarterly by Board and at appropriate levels within the organisation.
ii. Quarterly Financials of Company are prepared placed before the management for detailed discussion and analysis thereof.
iii. The budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances whenever deemed required and expedient.
iv. Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.
v. Cash management services are availed from Bank to avoid any loss of interest on collections. Exposures to Foreign Exchange transactions are supported by LCs, Bank guarantees and roll over credits etc. to protect the Company from the adverse effects of undue fluctuations in exchange rates and other allied factors etc.

3. **Credit Risks:**

i. Risks in settlement of dues by dealers/customers
ii. Provision for bad and doubtful debts

Risk Mitigation Measures:

i. Provisions for bad and doubtful debts are made to arrive at correct financial position of the Company.
ii. Appropriate recovery management and due legal process is constantly undertaken and periodical report is circulated to Management for their information and necessary suggestions/ guidance in recovery matters etc.

4. **Logistics Risks:**

i. Use of outside transport sources.

Risk Mitigation Measures:

i. Exploring possibility of an in-house logistic mechanism if the situation demands.
ii. Possibilities to optimize the operations, by having a combination of transportation whenever viable are explored.
iii. Company has a dedicated transport service providers group on contract basis with commission/ formulae basis freight charging mechanism or as management may deem fit and suitable considering market sentiments etc from time to time. These transporters handle all requirements relating to movement of goods, as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects.

5. **Market Risks/ Industry Risks:**

i. Demand and Supply Risks
ii. Quantities, Qualities, Suppliers, lead time, interest rate risks
iii. Raw material rates
iv. Interruption in the supply of Raw material

Risk Mitigation Measures:

i. Raw materials are procured from different sources at competitive prices.
ii. Alternative sources are developed for uninterrupted supply of raw materials and due comparisons are made between the domestic and international prices before major acquisition of material etc.
iii. Demand and supply are external factors on which company has no control, but however the Company plans its production and sales from the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company's products.
iv. 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 utilisation in customer-plants etc.
v. Proper accounting and inventory control systems through my SAP system have been put in place.

6) Human Resource Risks:

i. Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.

ii. Unrest Risks due to Strikes and Lockouts.

Risk Mitigation Measures:

i. Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
ii. Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
iii. Employees are trained at regular intervals to upgrade their skills.
iv. Labour problems are obviated by negotiations and conciliation.
v. Activities relating to the Welfare of employees are undertaken.
vi. Employees are encouraged to make suggestions and discuss any problems with their Superiors.

7) Disaster Risks:

- Natural risks like Fire, Floods, Earthquakes, etc.

Risk Mitigation Measures:

i. The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
ii. Fire extinguishers have been placed at fire sensitive locations and an exhaustive map of all main installations of Plant have been exhibited on Board at its entrance for easy access and combat against any emergency or disastrous situations.
iii. First aid training is given to watch and ward staff and safety personnel.
iv. Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.

8) System Risks:

i. System capability
ii. System reliability
iii. Data integrity risks
iv. Coordinating and interfacing risks

Risk Mitigation Measures:

i. IT department maintains repairs and upgrades the systems on a continuous basis with proper anti-virus system installation with personnel who are trained in software and hardware and company's own server is used for repository of electronic data to thwart away the practice of hijacking and data pilfering etc.
ii. Password protection is provided at different levels to ensure data integrity.
iii. Licensed software is being used in the systems with independent server of company in sync with requisite power back up for consistent power supply.
iv. The Company ensures to put suitable "Data Security mechanism", by having due firewall protection system and proper monitoring of control/ restrictions thereof.

9) Legal Risks:

These risks relate to the following:

i. Contract Risks
ii. Contractual Liability
iii. Frauds
iv. Judicial Risks
v. Insurance Risks

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts and its terms and conditions with focus on contractual liabilities, deductions, penalties, exit clauses, interest and conditions are undertaken on a regular basis.

vi. The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation, whenever required.

vii. Contracts are finalized as per the advice from legal professionals and Advocates and instant legal actions are taken immediately against the erring/ defaulting parties and debtors etc.

viii. Insurance policies are audited to avoid any disputes at later stage.

ix. Timely payment of insurance premium and full coverage of properties of the Company under insurance.

x. Internal control systems for proper control on the operations of the Company and to detect any frauds.

xi. Quarterly Corporate Governance Report is placed before the Board for their perusal and suggestions etc, if any, related to legal risk elements contained therein and other associated risks are also discussed, whenever required.

10) Foreign Exchange and Interest Rate Risk Management:

A. Exposures

i. The Company has currency exposures in the form of Sundry Debtors and Sundry Creditors viz. those who primarily supply goods to Company on cash or credit system as may be mutually agreed.

B. Risk Identification

ii. 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.
iii. All exposures are considered periodically whenever required. Besides, the cash flows are also prepared and monitored.
iv. The company's budgeted exchange rates are not be used for quotations or exposure management or performance evaluation of treasury.

C. Risk Measurement

i. Measurement of the risk are done for foreign exchange exposure on basis of market conditions of currency exchange, hedging and/or professional advice of experts/ consultants etc. whenever required, if any, through the net open position in a currency. The net open position is the difference between unhedged receipts and payments in each currency. Stop loss level means the predetermined level at which an un-hedged exposure could be hedged.

D. Risk Control

1. Risk limitation or reduction is the prime objective in framing the policy.
2. Company's bankers are consulted and suitable exposures in the form of limited buyers' credit, roll over credit and other instruments are evolved to mitigate exchange rate fluctuations as well as in interest rates tied to LIBOR and other like rates.

11) Disclaimer Clause

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only related to company activities. 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.

For Bhansali Engineering Polymers Limited

M. C. Gupta	**B. M. Bhansali**	**B.S. Bhesania**
Chairman	Managing Director	Director
(DIN: 01362556)	(DIN: 00102930)	(DIN: 00026222)

DATE : 27th SEPTEMBER, 2014
PLACE : MUMBAI