



# LAKHOTIA POLYESTERS (INDIA) LIMITED

158 -159, Shree Samartha Sahakari Audyogik Vasahat LTD, PIMPALGAON (Baswant ),  
Tal. Niphad, Dist. Nashik Maharashtra - 422 209 India  
TeleFax : 02550-252300, Email: info@lakhotiapoly.in, Website :- www.lakhotiapoly.in

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**CIN: L17120MH2005PLC155146**

## **RISK MANAGEMENT POLICY**

**[Section 134 of the Companies Act, 2013 read with Clause 49]**

### **Introduction**

Risk can be defined as the combination of the probability of an event and its consequences. Oxford Dictionary defines the term “**risk**” as a chance or possibility of danger, loss, injury or other adverse consequences. Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Risk may also be defined as the possibility that an event will occur and adversely affect the achievement of the Company’s objectives and goals. A business risk is the threat that an event or action will adversely affect an organization’s ability to achieve its business objectives/targets. Business risk arises as much from the possibility that opportunities will not be realized as much from the fact that certain threats could well materialize and that errors could well be made.

### **Risk Management**

Risk Management is a structured, consistent and continuous process, applied across the organization for the identification and assessment of risks, control assessment and exposure monitoring.

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The objectives of the risk management framework of **Lakhotia Polyesters (India) Limited** [‘the Company’] comprises the following:

- To identify, assess, prioritize and manage existing as well as new risks in a planned and coordinated manner
- To increase the effectiveness of internal and external reporting structure
- To develop a risk culture that encourages employees to identify risks and associated opportunities and respond to them with appropriate actions

The Company has identified following initiatives to achieve its risk management objectives:

- Review and assess the quality, integrity and effectiveness of the risk management systems
- Review and assess the nature, role, responsibility and authority of the risk management function within the Company and outline the scope of risk management work
- Ensuring that the Company has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions, to proactively manage these risks, and to decide the Company’s appetite or tolerance for risk
- Review the processes and procedures to ensure the effectiveness of internal systems of control so that decision-making capability and accuracy of reporting and financial results are always maintained at an optimal level
- Monitor the external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts
- Review the risk bearing capacity of the Company in light of its reserves, insurance coverage or other such financial structures
- Discuss frauds / attempts of frauds against the company and deciding actions
- Accurate, complete and timely escalation of risk information to support management decision making at all levels
- Active involvement of all employees in the risk management process within their own areas of responsibility
- Continuous monitoring and management to an acceptable level of the potential impact
- Integration of risk management into the Company’s day-to-day operations

### **Risk Management framework**

The key elements of the framework include a risk management strategy, risk management structure, risk portfolio management and measuring, monitoring and optimizing. The implementation of the framework is supported through criteria for risk assessment and categorization, a risk escalation matrix, risk forms and MIS.

### **Risk Management Strategy**

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**Lakhotia Polyesters (India) Limited** recognizes 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:

- Transferred to another party involving risk mitigation/ optimization by appropriate insurance cover
- Reduced, by having adequate internal controls
- Avoided, by not entering into risky businesses
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk

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.

Business risk *inter-alia* further includes financial risk, political risk, fidelity risk, legal risk. For managing Risk more efficiently the Company needs to identify the risks that it faces in trying to achieve the corporate objectives. 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.

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 services
- Sustenance and growth of strong relationships with clientele
- Expanding presence in existing markets and penetrating new geographic markets
- Continuing to enhance industry expertise
- Enhance capabilities through technology alliances and acquisitions

Operations:

- Consistent Revenue growth
- Consistent profitability
- Further develop culture of innovation

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- Attract and retain quality talent and augmenting their training Reporting:
- Maintain high standards of corporate governance and public disclosure
- MIS

Compliance:

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

Formal authority, responsibility and accountability for designing, implementing and sustaining effective risk management processes rest with the Company's Board of Directors. The Audit Committee, Managing / Whole-time Director(s) and Senior Management assist the Board of Directors in fulfilling this risk mitigating responsibility.

At the Company level, this priority is allied to an ongoing risk measuring discipline. Function heads periodically review risks facing their areas of responsibility and implement an effective system of internal controls to manage them; they designate responsibilities and provide for upward communication of any significant issues that could arise.

## **RISK MANAGEMENT STRUCTURE**

The Company has a formal risk management structure with defined roles and responsibilities.

### **Audit Committee**

The Audit Committee ordinarily reviews risk management on regular basis. The Audit Committee monitors the progress of risk management initiatives and updates the Board of Directors with respect to changes in the Company's key risk portfolio.

### **Senior Management**

Senior Management (Managing / Whole-time Director(s), CFO, Function Heads, and one level below the Managing / Whole-time Director(s)) is responsible for broadening and strengthening the Company's risk management. They provide inputs and insights in the establishment, monitoring and structuring of controls and assists management in identifying, assessing and managing risks.

### **Risk Portfolio Management**

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

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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 Risk Portfolio Management cycle begins with risk identification; followed by risk assessment, risk categorization and finally the recording of risks in the risk registers.

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## **RISK MANAGEMENT CYCLE**

### **Risk Identification**

Risk identification involves identifying potential events that may have an adverse impact on the achievement of business objectives. The process of risk identification involves an understanding of the objectives of the Company and strategies adopted to achieve the same as well as potential events, past events and trends and possible future exposures. An event with a positive impact represents an opportunity while one with a negative impact represents a risk.

### **Risk assessment**

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk assessment involves the quantification of the impact of risks to determine potential severity and a probability of occurrence. Inherent as well as residual risks are considered in the process of risk assessment. Each identified risk is assessed on a five point scale with respect to the following criteria for determining their inherent and residual exposure; likelihood of the occurrence of an event and impact if the event occurs.

Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks. Both inherent and residual risks are to be considered in the process of risk assessment. An inherent risk is defined as the risk faced by the organization in the absence of any actions (controls) that the Management might implement to alter the risk's impact or likelihood. The combination of an inherent likelihood of event occurrence and inherent impact represents the 'inherent' risk exposure.'

The components of gross risk i.e. the probability of occurrence and magnitude of impact are sought to be reduced through the institution of adequate controls, the remaining risk being termed as residual risk. The combination of residual likelihood and residual impact represents the 'residual risk exposure.'

Risk exposure can vary from low to high as depicted in the risk map below.

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.

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### **Risk Categorization**

Risk categorization assists in the assessment and prioritization of risk. The Company categorizes risks into the following categories:

<b>Strategy risk</b>	<b>Operational risk</b>	<b>Financial risk</b>	<b>Legal, regulatory and compliance risk</b>	<b>Human resources risk</b>	<b>Technology and information system risk</b>
Business segments	Force majeure	Funding risk	Contractual risk	Performance and attrition risk	Storage and safety
Substitution risk	Cost competitiveness	Foreign currency risk	Compliance and regulatory risk	—	—
Competition risk	Quality	Receivables management Risk	—	—	—
Concentration risk	Proprietary risks/ Contingencies	Working capital cycle risk	—	—	—

In addition, there are external risks i.e. risks arising out of the external environment. Generally the Company exercises minimal or no control over such risks.

### **Risk Recording**

Risk recording is done to record identified risks and related information in a structured manner. Reports drawn from the register are used to communicate the current status of all known risks and are vital for assessing management control. The risk register contain the following information with respect to each identified risk: risk description, risk owner, root causes, risk category, inherent risk evaluation, controls to mitigate the risk, residual risk category, inherent risk evaluation, controls to mitigate the risk, residual risk evaluation, action plan, owner, timeliness and status of action plans.

### **Measuring and Monitoring**

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**Control assessment:** The purpose of control assessment is to assess the effectiveness of risk minimization procedures implemented by the process owners.

**Evaluate Control design**

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**Evaluate operational effectiveness**

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**Identify and remediate deficiencies**

**Risk reviews:** A risk review involves re-examination of all risks recorded in the risk register to ensure that the risk assessment as currently recorded remains valid. The risk review is conducted to monitor the effectiveness of the risk assessment framework.

Risk reviews also involve the following:

- Assessment of Completeness and validity of risks recorded in the risk register.
- Assessment of changes in the business process; operating and regulatory environment since the last risk assessment and corresponding changes required in the risk profile, risk appetite and risk management procedures.
- Reviewing efficacy and implementation status of action plans for identified risks and consequent revision in action plans.

**Risk escalation:-**The risk escalation matrix specifies the levels in the organization to which risks with different magnitudes are to be escalated based on the significance arrived at as part of the risk assessment process. Risk escalation is critical for prompt communication of Key risk information is also important to ensure that all significant risks identified in a department are considered in the context of the overall operations of the company in a coordinated and consistent manner.

**Risk optimization:** Risk optimization involves the Management of various risks in line with the risk appetite of the Company.

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## **RISK MANAGEMENT PROCESS**

Risk Management at the Company begins with the approval of a risk management strategy. The overall responsibility for insuring compliance with the risk management policy and policy guidelines is the responsibility of the Managing Director and CFO. In addition to providing an overall guidance and monitoring risk management procedures, Managing Director and CFO also provide quarterly updates to the Board of Directors/Audit Committee. Heads of department are responsible for identifying risks, preparing and executing action plans within their own areas of responsibility. They are also responsible for reviewing and escalating risks.

### **Political Environment**

Any adverse change in the political environment would have an impact in growth strategies of the Company. Political risks are managed by constant engagement with the Government, regulatory bodies, reviewing and monitoring the industrial, labour and related policies and involvement in representative industry-bodies.

### **Cost Structure**

At organizational level, cost optimization 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.

### **Financial Risk/ Financial Reporting Risk**

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 need compliance adherence. 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.

The Company is 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 to address these issues.

Our preparation of financial statements are in conformity with the applicable Accounting Standards, which 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.

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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.

### **Funding risk**

Over the years, the Company has ploughed back earnings into the business, creating a strong financial statement. The Company maintains a history of timely repayments of all external liabilities. These factors allow the Company to collect funds at rates, which are better than industry standards. The Company has leveraged these factors to its advantage.

### **Receivables management risk**

Any untimely receipt of funds could bloat the working capital cycle. Any default or downgraded creditworthiness of the customers could affect profitability.

The Company has documented credit policy for its customers, which is periodically reviewed and approved by the management. The policy dictates that dispatch is made only against adequate collateral from the client. In addition, the credit period is only extended on a selective basis, which is approved by the management.

The company's investment in SAP has facilitated a real time monitoring of its debtors' position. This system has a multitude of MIS reports that highlight old debtors along with other details. This has facilitated in reducing the level of debtors and liquidating the Company's receivables from old debtors.

### **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 etc.

The Company mitigates this risk by

- Understanding the applicable laws and regulations
- Conducting risk assessments
- Enforcing and monitoring code of conduct for key executives
- Instituting Whistleblower mechanisms
- Deploying a strategy and process for implementing the new controls
- Adhering to internal control practices that prevent collusion and concentration of authority

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- Employing mechanisms for multiple authorizations of key transactions with cross checks
- Scrutinizing of management information data to pinpoint dissimilarity of comparative figures and ratios
- 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 and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

### **Human resource risk**

Risks (like attrition) that are part of the personnel related process of the Company such as recruitment and performance measurement.

The Company initiatives focus on ownership, leadership and team building, ensuring that management succession is seamless and beneficial.

The Company enjoys a fair blend of youth and experience; it has a prudent mix of a competent and experienced Board as well as young and energetic operational team.

### **Legal, regulatory and compliance risk**

Risks arising out of non fulfillment of / non compliance with applicable compliance, legal and statutory requirements.

### ***Contractual risks***

The Company is exposed to possible liabilities that could arise from the non performance of certain contractual conditions. To protect from such eventuality, the Company has established a review and documentation process for contracts. Each contract to be executed by or on behalf of the Company requires vetting from the Company's legal department before execution. While vetting contracts, the department evaluates the legal risks involved and ascertains legal responsibilities.

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.

### ***Compliance and regulatory risk***

The Company is committed to being a responsible corporate citizen and respects the laws and regulations of the countries in which it operates. The Company has an informed and proactive legal cell, which ensures compliances with various statutes. Besides, it also take advises the

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Company on various compliances issues and ensures their alignment with the laws of jurisdiction as well as to the territory where the Company operates. The Board reviews the compliance report on quarterly basis.

The Company believes in complying with laws of the land in letter and spirit and is in the process of developing internal control tool for monitoring compliances on real time basis.

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.

The Company has taken Directors & Officers (D&O) Liability Insurance cover to protect its Directors' or officers' personal fortunes against the consequences of their personal liability for financial losses arising out of their unintentionally wrongful acts.

The Company has established a compliance management system in the organization and the quarterly compliance reports from functional heads is being placed before the Board supported by a quarterly Secretarial Audit report by a practicing Company Secretary in compliance with clause 49 of the listing agreement.

### **Human Resource Management**

Company's People Innovation Department adds value by ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational 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 minimized 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 specialization. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to manufacturing procedures, etc. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

Employee compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance. Packages are inclusive of the proper incentives and take into account welfare measures for the employee and his family.

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We seek to provide an environment that rewards entrepreneurial initiative and performance.

**Culture and values.**

The Company has various radio stations located in different geographical locations and people belonging to different culture and values are employed in those divisions.

Managing risk consistently among multi-cultural workforce is very critical.

The company has implemented a written code of conduct and ethics for the employees. These policies are disseminated on the Company's website.

Over the years, Company has consistently followed the practice of adhering to certain cultures and values in internal and external management and every employee is made aware of such practices and the logic behind them. It is the Company's belief that every employee is attuned to follow fair practices and uphold its fair name in every field they are involved.

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