# STEELCAST LIMITED

## Risk Management Policy

**Version 1.0**

**Adopted in the Board Meeting held on 25.03.2022**

STEELCAT LIMITED

**'Risk Management Policy'**

**1.0 Background:** Steelcast Limited ("the Company") incorporated under the Companies Act, 1956 (Now Companies Act, 2013) is engaged in the manufacture of steelcastings. The Company's equity shares are listed on the National Stock Exchange of India Ltd ("NSE") and BSE Ltd. ("BSE"). The Company is regulated under the Companies Act, 2013 and Securities and Exchange Board of India Act, 1992 ("SEBI Act") and the rules and regulations framed thereunder. The Regulation 21 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") stipulates the formation of Risk Management Committee to regulate and monitor the Risk Management Policy in a listed entity. The said Regulation mandates the formulation of Risk Management Policy for top1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year. It further mandates the constitution of Risk Management Committee to oversee the compliance with the Risk Management framework in top 1000 listed entities as above. Though the Company is not presently falling under the criteria of top 1000 listed entities, it is considered desirable to formulate this policy at this stage as a good corporate governance practice.

The business environment in which the Company is operating, it is exposed to various internal and external risks. Pursuant to the above stipulations, the Company is hereby adopting the Risk Management Policy formulated as under to identify, assess, analyse and mitigate various risks the Company is exposed to.

**1.1 "Risk"** in literal terms as per Oxford Dictionary means – "Risk of exposure to possibility of loss, injury or other adverse or unwelcome circumstances; a chance or situation involving such a possibility." Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every organization continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

**1.2 "Risk Management"** is the identification, assessment and prioritization of risk followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realization of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

**1.2.1 Effective risk management requires:**

**a.** A strategic focus,
**b.** Forward thinking and active approach of the management
**c.** Balance between the cost of managing risk and the anticipated benefits, and
**d.** Contingency planning in the event that critical threats are realised.

**1.2.2** 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, return on investments, business cycle, increase in price and costs, limited resources, retention of talent, etc.

**2.0 Legal Framework:** Risk Management is a key aspect of Corporate Governance Principles and Code of Conduct which aims to improvise the governance practices across the business activities of any organisation. Apart from the Regulation 21 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), The Companies Act, 2013 and Regulation 17 (9) (a) and (b) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements)

Regulations, 2015 (”Listing Regulations”) have also incorporated various provisions in relation to Risk Management policy, procedure and practices.

**2.1** The provisions of Section 134(3)(n) of the Companies Act, 2013 necessitate that the Board’s Report should contain 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.

**2.2** Further, the provisions of Section 177(4)(vii) of the Companies Act, 2013 require that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall *inter alia* include evaluation of risk management systems.

**2.3** In line with the above requirements, it is therefore, required for the Company to frame and adopt a **“Risk Management Policy”** (this Policy) of the Company

**3.0 Purpose and Scope of Policy:** The main objective of this Policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the Company’s business. In order to achieve the key objective, this Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

**3.1 The specific objectives of this Policy are:**

**3.1.1** To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.

**3.1.2** To establish a framework for the company’s risk management process and to ensure its implementation.

**3.1.3** To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

**3.1.4** To assure business growth with financial stability.

**4.0 Applicability:** This Policy applies to all areas of the Company’s operations.

**5.0 Key Definition:**

**5.1 Risk Assessment** – The systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks

**5.2 Risk Management** – The systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

**5.3 Risk Management Process** - The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk. The Company has established an elaborate framework containing, inter alia, formation of Risk Management Committee (RMC), Risk Management Framework, Process, Risk Categories and responsible person in the Company. The same is enclosed with this policy as ANNEXURE-A.

**6.0 Risk Factors:** The objectives of the Company are subject to both external and internal risks that are enumerated below:

**6.1 External Risk Factors**

**6.1.1 Economic Environment and Market conditions:** This includes changes in market conditions. An overall economic downturn could lead to a sudden, unexpected loss of revenue. Further, if the consumer confidence is low due to a recession or rising unemployment, consumer spending will suffer.

**6.1.2 Political Environment:** This is comprised of changes in the political environment or governmental policy that relate to financial affairs. Changes in import and export laws, tariffs, taxes, and other regulations all may affect a business negatively.

**6.1.3 Competition:** This is the risk which has the potential for reduced revenue or declining margins due to the price, product, promotion or distribution actions of a competitor. Increasing competition may reduce revenues and increase costs as well as require us to increase our capital expenditures and thereby decrease our cash flow. Some of our competitors may have superior resources, which may place us at a cost and price disadvantage.

**6.1.4 Revenue Concentration and liquidity aspects:** Concentration of steelcasting business of the Company mainly in mining and earthmoving industry poses a great risk apart from other risks. The risks are therefore associated on each business segment contributing to total revenue, profitability and liquidity. Since the steelcastings are of capital nature and their demand depends on the development of the capital goods industry and are priced high comparatively, this carry higher risks for profitability and liquidity.

**6.1.5 Inflation and Cost structure-** Inflation is inherent in any business and thereby there is a tendency of costs going higher. Further, the project business, due to its inherent longer timeframe, as much higher risks for inflation and resultant increase in costs.

**6.1.6 Technology Obsolescence –** The Company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.

**6.1.7 Legal –** 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, the Company is exposed to legal risk.

**6.1.8 Fluctuations in Foreign Exchange-** The Company has substantial currency exposure in case of export sales and imports. It has natural hedge to some extent. However, beyond the natural hedge, the risk can be measured through the net open position i.e. the difference between un-hedged outstanding receipt and payments. The risk can be controlled by a mechanism of "Stop Loss" which means the Company goes for hedging (forward booking) on open position when actual exchange rate reaches a particular level as compared to transacted rate.

**6.2.0 Internal Risk Factors**

**6.2.1 Expansion Project Execution:** This risk includes risk in terms of a) escalation of project costs, b) project activities take longer than expected schedule and c) performance risk that the project will fail to produce results consistent with project specifications.

**6.2.2 Contractual Compliance:** Contract risk involves potential losses due to a buyer's inability to pay or the terms of the agreement being broken. Financial risks, often categorized as credit, liquidity, asset-backed, and equity risk, are contract risks associated with the loss of money.

**6.2.3 Operational Efficiency:** This comprises uncertainties and hazards a company faces when it attempts to do its day-to-day business activities within a given field or industry. This is a type of business risk, which can result from breakdowns in internal procedures, people and systems.

**6.2.4 Hurdles in optimum use of resources:** This is due to difficulty in allocating scares resources and the distribution of the final goods and services. The Reason behind these is the compulsion of making choices among alternative uses of scarce resources to get optimum result.

**6.2.5 Quality Assurance:** The potential for losses due to rejection of goods that fails to meet the quality standards prescribed by the customers.

**6.2.6 Environmental Management:** This is a risk that can have a material environmental or environmentally-driven impact on the business due to non-compliance of the environmental laws by the Company.

**6.2.7 Human Resource Management:** This is the potential employee-related risk to the business. This arises mainly on account of discriminatory practices, hiring unsuitable or unsafe candidates, personal injury or death, financial abuse etc.

**6.2.8 Culture and values:** This includes the potential struggle that the company's operations may suffer because of differences in language, customs, norms, and customer preferences.

**7.0 Responsibility for Risk Management:** Generally every staff member of the Organisation is primarily responsible for the effective management of risk including the identification of potential risks. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

**8.0 Compliance and Control:** All the Senior Executives under the guidance of the Chairman and Board of Directors and the Risk Management Committee have the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organisation's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risks. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

**9.0 Review:** This Policy shall be reviewed at least once in every two years to ensure that it meets the requirements of legislation and the needs of organization.

**10.0 Amendment:** This Policy can be modified at any time with the approval of the Board of Directors of the Company.

ANNEXURE-A

SL:AC

STEELCAST
25.3.2022
Version 1.0

RISK MANAGEMENT FRAMEWORK AND PROCESS

**Sub: Risk Management in Steelcast**

**1.0 Background**

1.1 The Risk Management at SL encompasses practices relating to identification, assessment, monitoring and mitigation of various risks to our business.

1.2 Risk Management in SL seeks to minimize adverse impact on our business objectives and enhance stakeholder value.

1.3 Further, our risk management practices seek to sustain and enhance long-term competitive advantage of the Company. Our core values, ethics and system provide the platform for our risk management practices.

**2.0 Our Risk Management Framework**

Our risk management framework encompasses the following key components.

**2.1 Risk Management Committee (RMC)**

Our risk management occurs across the company at various levels. These levels also form the various lines of defense in our risk management. To monitor, review and report on the risk management of the Company, the Risk Management Committee is formed as under:

| Sr. No. | Name of Committee Member | Position in the Company | Position in the Committee |
|---|---|---|---|
| 1 | Shri Chetan M Tamboli | Chairman & Managing Director | Chairman |
| 2 | Shri Apurva R Shah | Independent Director | Alternate Chairman |
| 3 | Shri Rajendra V Gandhi | Independent Director | Member |
| 4 | Shri Hemantbhai D Dholakia | Independent Director | Member |
| 5 | Shri Ashutosh H Shukla | Professional Director (Manufacturing) | Member |
| 6 | Shri Subhash Sharma | Chief Financial Officer | Member |

The key roles and responsibilities regarding risk management in the Company are as follows :

| Level | Key Roles |
|---|---|
| Risk Management Committee | α) Reviewing risks from time to time, initiating mitigation actions, identifying owners and reviewing progress<br>β) Formulating and deploying risk management policies<br>χ) Deploying practices for identification, assessment, monitoring, mitigation and reporting of risks<br>δ) Providing updates to the Board from time to time on the risks and actions taken |
| Managers & Staff | a) Facilitating the execution of risk management practices in the company as mandated, in the areas of risk identification, assessment, monitoring, mitigation and |

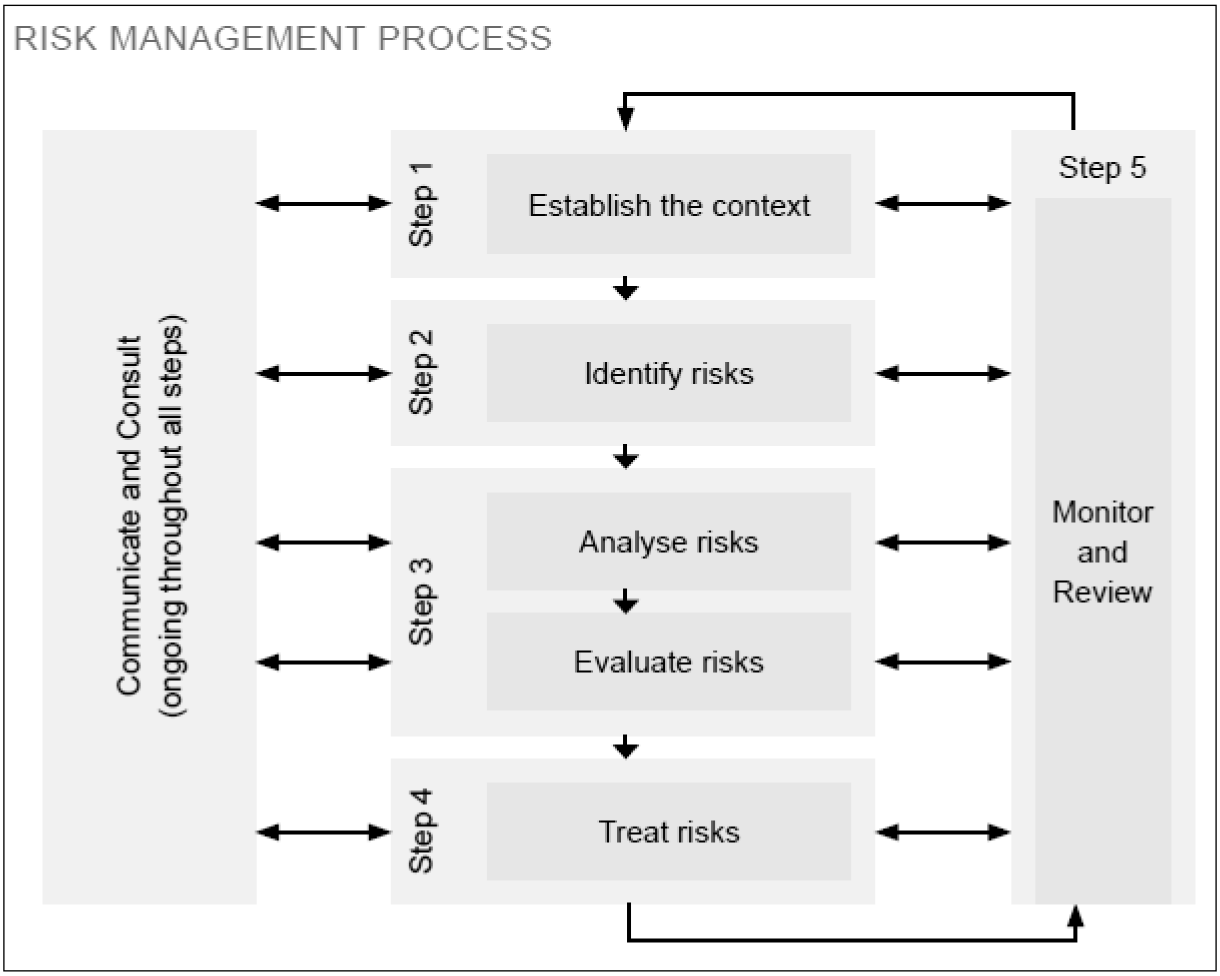
| | |
|---|---|
| | reporting<br>b) Deploying mechanisms to monitor compliance with policies<br>c) Providing periodic updates to RMC on top risks and their mitigation<br>d) Working closely with owners of risk in deploying mitigation measures<br>e) Managing their functions as per company risk management philosophy<br>f) Adhering to risk management policies and procedures<br>g) Implementing prescribed risk mitigation actions<br>h) Reporting risk events and incidents in a timely manner |

### 2.2 Risk Management Process- A Brief to Risk Managers

Risk Management is a five step process:

2.2.1 – Establish the context
2.2.2 – Identify the risks
2.2.3 – Analyse the risks
2.2.4 – Evaluate the risks
2.2.5 – Treat the risks

Throughout each step it is essential that there is consultation and communication with everyone in organization's functions, activities and events (refer to diagram):



### 2.2.1 Establish the context

Before risk can be clearly understood and dealt with, it is important to understand the context in which it exists. The relationship should be defined between the Company and the environment that it operates in so that the boundaries for dealing with risk are clear.

Establish the content by considering:

- The strategic context – the environment within which the Company operates
- The organisational context – the objectives, core activities and operations of the company.

### 2.2.2 Identify the risks

The purpose of this step is to identify what could go wrong (likelihood) and what is the consequence (loss or damage) of it occurring.

Key questions to ask include:

- What can happen? List risks, incidents or accidents that might happen by systematically working through each competition, activity or stage of your event to identify what might happen at each stage.
- How and why it can happen? List the possible causes and scenarios or description of the risk, incident or accident.
- What is the likelihood of them happening?
- What will be the consequences if they do happen?

Risks can be of various types such as physical, financial, ethical or legal.

**Physical** risks are those involving personal injuries, environmental and weather conditions and the physical assets of the company such as property, buildings, equipment, vehicles and stock.

**Financial** risks are those that involve the assets of the company and include theft, fraud, loans, license fees, attendances, membership fees, insurance costs, lease payments, pay-out of damages claims or penalties and fines by the government.

**Ethical** risks involve actual or potential harm to the reputation or beliefs of your company, while legal risks consist of responsibilities imposed on providers, participants and consumers arising from laws made by central, state and local government authorities and their agencies.

**Legal** risk arises when counter party does not have the legal or regulatory authority to engage in the transactions. It also includes the compliance and regulatory risk like insider trading, market manipulations, defaults and mismanagement of legal affairs etc.

### 2.2.3 Analyse the risks & evaluate

This involves analysing the likelihood and consequences of each identified risk and deciding which risk factors will potentially have the greatest effect and should, therefore, receive priority with regard to how they will be managed. The level of risk is analysed by combining estimates of likelihood (table 1) and consequences (table 2), to determine the priority level of the risk (table 3).

It is important to consider the consequences and the likelihood of risk in the context of the activity, the nature of your company and any other factors that may alter the consequences of likelihood of risk.

Risk evaluation involves comparing the level of risk found during the analysis process with previously established risk criteria, and deciding whether risks can be accepted. If the risk falls into the low or acceptable categories, they may be accepted with minimal further treatment. These risks should be monitored and periodically reviewed to ensure they remain acceptable. If risks do not fall into the low or acceptable category, they should be treated using one or more of the treatment options considered in step 4.

The criteria for evaluating the risks at your company are shown below:

**Table 1– Likelihood scale**

**Question – what is the likelihood of the risk event occurring?**

**Risk Likelihood Descriptors**

| Sr. No. | Description | Likelihood of Occurrence |
|---|---|---|
| 1 | Very Low (Rare) | Highly unlikely, but it may occur in exceptional circumstances. It could happen, but probably never will. |
| 2 | Low (Unlikely) | Not expected, but there's a slight possibility it may occur at some time. |
| 3 | Medium (Possible) | The event might occur at some time as there is a history of casual occurrence at the Company. |
| 4 | High (Likely) | There is a strong possibility the event will occur as there is a history of frequent occurrence at the Company. |
| 5 | Very High (Almost Certain) | Very likely. The event is expected to occur in most circumstances as there is a history of regular occurrence at the Company. |

**Table 2 – Loss or damage impact scale**

**Question: what is the loss or damage impact if the risk event occurred (severity?)**

**Severity of Consequence**

| Sl No | DESCRIPTION | Severity of Consequence |
|---|---|---|
| 1 | Very Low | Loss of business/money. (<30%). Minor incidents. |
| 2 | Low | Loss of business/money. (30-50%). Accident causing minor injuries. |
| 3 | Medium | Loss of business/money. (50-70%). B) Temporary disablement. |
| 4 | High | Significant loss of business/money. (70-90%). B) Total permanent disablement. |
| 5 | Very High | a) Amounts to loss of life. b) Complete stoppage of production/business activities. (>90%) |

**Risk priority**

The **risk priority scale** determines the nature of the risk and the action required. They are indicators to assist in the decision making of what action is warranted for the risks. Under the framework, the Company has laid down a Matrix for the identified risks. Each risk is assigned a

Risk Element number and the risk element is rated based on Likely Frequency of Occurrence and Severity of Consequences. The highest risk rated elements are taken for its assessment, mitigation measures, monitoring and reporting. The Committee has grouped risk elements based on their nature

***Question: What is the risk priority?***

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**Table 3: Risk Rating Matrix**

| Sr. No | Likely Frequency of Occurrences | Severity of Consequence | | | | |
|---|---|---|---|---|---|---|
| | | Very High | High | Medium | Low | Very Low |
| 1 | Very High | 10 | 8 | 7 | 6 | 5 |
| 2 | High | 8 | 7 | 6 | 5 | 4 |
| 3 | Medium | 7 | 6 | 5 | 4 | 3 |
| 4 | Low | 6 | 5 | 4 | 3 | 2 |
| 5 | Very Low | 5 | 4 | 3 | 2 | 1 |

### 2.2.4 – Treat the risks

Risk treatment involves identifying the range of options for treating the risk, evaluating those options, preparing the risk treatment plans and implementing those plans. It is about considering the options for treatment and selecting the most appropriate method to achieve the desired outcome.

Options for treatment need to be proportionate to the significance of the risk, and the cost of treatment commensurate with the potential benefits of treatment.

According to the standard, treatment options include:

- **Accepting the risk** – for example most people would consider minor injuries as an inherent risk in a manufacturing company where process is carried out manually.

- **Avoiding the risk** is about the company deciding either not to proceed with an activity, or choosing an alternate activity with acceptable risk which meets the objects of the company.

- **Reducing the risk** likelihood or consequences or both is commonly practiced treatment of a risk during job, for example use of safety guards while working on machines.

- **Transferring the risk** in full or in part, will generally occur through contracts or notices for example the insurance contract is perhaps the most commonly used risk transfer form used. Other examples include lease agreements, waivers, disclaimers etc.

- **Retaining the risk** is knowing that the risk treatment is not about risk elimination, rather it is about acknowledging the risk is an important part of the manufacturing process and some must be retained because of the inherent nature of the manufacturing activity. It is important to consider the level of risk which is inherent and acceptable.

- **Financing the risk** means the company funding the consequences of risk i.e. providing funds to cover the costs of implementing the risk treatment.

Whichever option selected to treat a risk, if the risk has rated highly one needs to carefully consider necessary policies, procedures and strategies to treat the risk. These will include:

- what is needed to treat the risk?
- who has responsibility?
- what is the timeframe ?
- how you will know when the risk has been successfully managed?

**2.2.5 – Monitor and review**

As with communication and consultation, monitoring and review is an ongoing part of risk management that is integral to every step of the process. It is also the part of risk management that is most often given inadequate focus, and as a result the risk management programs of many organisations become irrelevant and ineffective over time. Monitoring and review ensure that the important information generated by the risk management process is captured, used and maintained.

Few risks remain static. Factors that may affect the likelihood and consequences of an outcome may change, as may the factors that affect the suitability or cost of the various treatment options. Review is an integral part of the risk management treatment plan.

Risk Management is an integral part of all core business functions, and it should be seen and treated as such. Risk management is fully incorporated into the operational and management processes at every level of the organization and monitored from the top down.

## 2.3 Risk Management in Steelcast:

### 2.3.1 Risk Categories and Champions

The following broad categories of risks have been considered in our risk management framework:

| Risk Group | Champion Name |
|---|---|
| Banking | Mr. Subhash Sharma |
| Business Environment | Mr. P N Shah |
| Environment, Healthy and Safety | Mr. B N Verma |
| Financial Risk | Mr. Subhash Sharma |
| HR Risk | Mr. A H Shukla |
| IT | Mr. M B Joshi |
| Material | Mr. A R Shah |
| Political Risk | Mr. P N Shah |
| Production & Process Risk | Mr. S K Sarkar |
| Quality Assurance Risk | Mr. V K Modi |
| Regulatory Compliance | Mr. Subhash Sharma |
| Statutory Compliance | Mr. P N Shah |
| Warranty Claims/Payments | Mr. V J Bhatt |

### 2.3.2 Key risk management practices

The key risk management practices include those relating to risk assessment, measurement, mitigation, monitoring, reporting and integration with strategy and business planning:

a. **Risk identification and assessment**: Periodic assessment to identify significant risks for the Company and prioritizing the risks for action. Mechanisms for identification and prioritization of risks include risk survey, business risk environment scanning and focused discussions in RMC. Risk survey of executives across functions is conducted monthly. The same is reported to RMC.

b. Risk measurement, mitigation and monitoring: For top risks, matrix is created so as to track and indicate the risk level. Mitigation plans are finalized, owners are identified and progress of mitigation actions are monitored and reviewed.

c. Risk Reporting: Top risks report outlining the risk rating, frequency of occurrence and severity i.e. potential impact and status of mitigation actions is discussed in RMC on a monthly basis. In addition, risk update is provided to the Board quarterly.

d. Integration with strategy and business planning: Identified risks are used as one of the key inputs for the development of strategy and business plan.

**3.0 Risk Environment in Steelcast during the year**

Being the policy formulation and adoption phase, the emphasis is laid on defining the risk elements and their rating in context of specific conditions of the company. A Risk Management Matrix Chart has been framed and provided to risk mitigation champions which will be used for review at RMC level. The management is keen to be more precise in defining the risk in each functional area and identifying the highest level risks to be focussed in action plan and eliminating the low level risks to avoid usage of limited resources.

**4.0 Reporting to the Committee of the Board:**

The above policy will come into practice from the date of approval of the Board.

Sd/-
(Chetan M Tamboli)
CHAIRMAN AND MANAGING DIRECTOR

cc as hard copies
1. AM/1139-I 2. AC/2009-G

cc as soft copies:
1. IT/193-A System and procedure (IT)/Soft copies of FICs

cc through intramail
1. To all