

RISK MANAGEMENT - POLICY AND PROCEDURES

This Risk Management Policy is being approved by the Board of Directors vide resolution dated March 09, 2016.

This report encompasses policies and procedures relating to the risk management of the Company. The risks detailed herein are not exhaustive and are for information purposes only. This report may contain forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. The Company undertakes no duty to update any forward-looking statements.

CEAT Specialty Tyres Limited (CSTL), is in the business of trading of OTR ("off the road") tyres and is in the process of setting of the Manufacturing Plant at Ambernath.

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 environment, technology, investments, retention of talent and expansion of facilities. As a matter of policy, these risks are assessed and steps as appropriate, are taken to mitigate the same.

Risk Management Framework

We adopt systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. We believe that this would ensure mitigating steps proactively and help achieve stated objectives. The entity's objectives can be viewed in the context of four categories: (i) Strategic, (2) Operations, (3) Reporting and (4) Compliance. We consider activities at all levels of the organization, viz. (1) Enterprise level, (2) Business Unit level, in our risk management framework. These eight components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz. (1) Risk Assessment; (2) Risk Management; (3) Risk Monitoring.

Risk Assessment

To meet the stated objectives, it is imperative to make effective strategies for exploiting opportunities and as a part of this the Company has identified key risks and developed plans for managing the same.

Organizational Objectives



Strategic:

1. Organizational growth.
2. Comprehensive range of products.
3. Sustenance and growth of strong relationships with customers.
4. Expanding presence in existing markets and penetrating new geographic markets.
5. Continuing to enhance industry expertise.
6. Enhancing capabilities through technology alliances and in house technology developments.

Operations:

7. Consistent revenue growth.
8. Consistent profitability.
9. High quality productivity.
10. Developing culture of innovation.
11. Attracting and retaining human talent and augmenting their training.

Reporting:

12. Maintaining high standards of Corporate Governance and public disclosure.
Compliance :
13. Ensuring stricter adherence to policies, procedures and laws/ rules/ regulations/ standards.

The objectives of the Company are subject to risks that are external and internal as enumerated below.

External Risk Factors	Internal Risk Factors
Economic Environment and Market conditions	Financial reporting risks
Fluctuations in Foreign Exchange	Contractual compliance
Political Environment	Compliance with local laws
Competition	Quality and Project management
Revenue concentration	Environmental management
Inflation and cost structure	Human resource management
Technology obsolescence	Culture and values
Risk of Corporate Accounting Fraud	

Risk Management and Risk Monitoring

In principle, risk always result as consequence of activities or as consequence of non- activities. Risk Management and Risk Monitoring are important in



recognizing and controlling risks.

Risks specific to the Company and the mitigation measures adopted

1) **Business dynamics:** Variance in the demand and supply of the product in various areas.

Based on experience of CEAT Limited, the Company is able to predict the demand during a particular period and accordingly supply is planned and adjusted.

2) **Business Operations Risks :** These risks relate broadly to the company's organization and management, such as planning, monitoring and reporting systems in the day-to-day management process namely:

Organisation and management risks, Production (whenever applicable), process and productivity risks, Business interruption risks, Profitability risks.

Riskmitigation measures :

- 1) The Company functions under a well defined organization structure.
- 2) Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- 3) Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functionalheads.
- 4) Strong HR Department to maintain excellent and cordial relations at all levels of employment.

3) **Liquidity Risks :**

- 1) Financial Solvency and liquidity risks Borrowing limits
- 2) Cash management risks

Riskmitigation measures :

- 1) Proper financial planning is put in place.
- 2) Annual and Quarterly Budgets and Variance Analyses are prepared to have better financial planning.
- 3) Daily, monthly cash flows are prepared.
- 4) Cash management services are availed from Bank to avoid any loss of interest on collections.
- 5) Exposure to Foreign Exchange transactions are supported by LCs and Bank Guarantee and suitable hedging policy.

4) **Credit Risks :**



Risks in settlement of dues by clients. Provision for bad and doubtful debts.

Risk mitigation measures:

- 1) Systems put in place for assessment of creditworthiness of Customers.
- 2) Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- 3) Appropriate recovery management and follow up.

5) Logistic Risks :

Use of outside transport sources.

Risk mitigation measures :

- 1) Sourcing committed and dedicated service providers.
- 2) Exploring possibility of an in-house logistic mechanism if the situation demands.
- 3) Possibilities to optimize the operations, by having a combination of transportation through road / rail and sea / air are explored.
- 4) Comprehensive transit risk insurance coverage for all incoming and outgoing goods across the organization.

6) Market Risks / Industry Risks :

Demand and Supply Risks

Quantities, Qualities, Suppliers, lead time, interest rate risks Raw material rates
Interruption in the supply of Raw material

Risk mitigation measures :

- 1) Raw materials will be procured from different sources at competitive prices, whenever the production starts.
- 2) Alternative sources are developed for uninterrupted supply of raw materials

Demand and supply are external factors on which company has no control, but however the Company plans its production and sales from CEAT's experience gained in the past. The Company tries to reduce the gap between demand and supply. Proper inventory control systems have been put in place.

7) Human Resource Risks :



Employee Turnover Risks, involving replacement risks, training risks, skill risks, etc. Unrest Risks due to Strikes and Lockouts.

Riskmitigation measures :

- 1) Company has proper recruitment policy for recruitment of personnel at various level in the organization.
- 2) Proper appraisal system to give yearly increment is in place. Employees are trained at regular intervals to upgrade their skills. Labour problems will be obviated by negotiations and conciliation. (whenever applicable).
- 3) Activities relating to the Welfare of employees are undertaken.

8) Disaster Risks :

Natural risks like fire, Floods, Earthquakes, etc.

Risk mitigation measures :

- 1) The property of the company will be insured against natural risks, like fire, flood, earthquakes, etc.
- 2) Fire Hydrants will be installed at all manufacturing locations. Other apparatus like extinguishers filled with chemical, Foam etc. have been placed at fire sensitive locations and regular fire safety drills are carried out.
- 3) First aid training will be given to watch and ward staff and safety personnel.
- 4) Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.
- 5) Engaging professional Risks Assessing Advisors who conduct periodical audit / review and suggest risks improvement measures from time to time.

9) System Risks :

System capability, System reliability, Data integrity risks, Coordinating and interfacing risks

Riskmitigation measures :

- 1) IT department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- 2) Password protection is provided at different levels to ensure data integrity. Licensed software is being used in the systems.
- 3) The Company ensures "Data Security", by having access control / restrictions.



10) Legal Risks :

These risks relate to the following :

- a. Contract Risks
- b. Contractual Liability Frauds
- c. Judicial Risks Insurance Risks
- d. Patent, Design and Copyright Infringement Risks
- e. 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.

The Company engages 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, to meet the general and specific requirements so that they can ensure adherence to all contractual obligations and 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. The suggestions and recommendations from professional agencies and industrial bodies, chambers of commerce etc., are carefully analysed and acted upon wherever relevant.

The Company is in the process of establishing a compliance management system in the organization and Secretary of the Company ensures the submission of the quarterly compliance reports by functional heads for placing the same before the Board supported by periodical Secretarial Audit Reports by Practicing Company Secretaries, whenever applicable.

11) Delegation Authority:

The Current Authority Matrix for delegation of powers for different team is annexed as Annexure A to the Policy.

12) Effective date/ Review/Revision:

The Policy will be effective from the date of approval of the Board. The Board of Directors shall review the efficacy of this policy periodically and if need be, approve modification therein as may be necessary from time to time.



13) Disclaimer Clause:

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and in having a complete / proper management's perception of risks. Readers are therefore requested to exercise their own judgement in assessing various risks associated with the Company.

