kaveri seed company limited

RISK MANAGEMENT POLICY

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(Under the Companies Act, 2013 and SEBI (LODR) Regulations, 2015)

Background and Context Applicability:

Enterprise risk management was not mandatory according to the Companies Act 1956. However, as per the new law, there are specific requirements that a company needs to comply with. This document lays down the framework of Risk Management at the Kaveri Seed Company Limited. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

Scope

The Policy shall apply to all operations, divisions and geographic locations of the Company. The Policy applies to Kaveri Seed, its Directors, and all its Employees and contractors.

Objective:

The objective of Risk Management at Kaveri Seed Company Limited is to create and protect shareholder value by minimizing threats or losses, and identifying and maximizing opportunities. An enterprise wide risk management framework is applied so that effective management of risks is an integral part of every employee's job.

Key Compliance Requirements:

Section 134: The Board of Directors report must include a statement indicating development and implementation of a risk management policy for the company including identification of elements of risk, if any, which in the opinion of the board may threaten the existence of the company.

Section 177(4): Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,— (vii) evaluation of internal financial controls and risk management systems.

Roles and Responsibilities

<table>
<tr><td>Board</td><td>The Company’s risk management architecture is overseen by the Board of Directors (BOD) and policies to manage risks are approved by the Board;

• The Company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.
• The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.
• The Company shall also constitute a Risk Management Committee. The Board shall define the roles and responsibilities of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit.
• Ensure that the organization has proper risk management framework
• Define the risk strategy and risk appetite for the company
• Approve various risk management policies including the code of conduct and ethics.
• Ensure that senior management takes necessary steps to identify, measure, monitor and control these risks</td></tr>
<tr><td>Audit Committee</td><td>The Audit Committee assists the Board in carrying out its oversight responsibilities relating to the Company's (a) financial reporting process and disclosure of financial information in financial statements and other reporting practices, b) internal control, and c) compliance with laws, regulations, and ethics (d) financial and risk management policies.

• Setting policies on internal control based on the organisation’s risk profile, its ability to manage the risks identified and the cost/ benefit of related controls;
• Seeking regular assurance that the system of internal control is effective in managing risks in accordance with the Board’s policies.</td></tr>
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	• Ensure that senior management monitors the effectiveness of internal control system • Help in identifying risk, assessing the risk, policies / guidance notes to respond its risks and thereafter frame policies for control and monitoring.
Risk Management Function (RMF)	The Risk Management Division is the key division which would implement and coordinate the risk function as outlined in this policy on an on-going basis. It would act as the central resource division for administration of RMF • Developing and communicating organizational policy and information about the risk management programme to all staff, and where appropriate to our associates of the company; • Develop, enhance and implement appropriate risk management policies, procedures and systems • Work with risk owners to ensure that the risk management processes are implemented in accordance with agreed risk management policy and strategy • Review risks and risk ratings of each department

The specific objectives of this Policy are:

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.
2. To establish a frame work for the company's risk management process and to ensures its implementation.
3. To enable compliance with appropriate regulations wherever applicable, through the adoption of best practices.
4. To assure business growth with financial stability.
5. Protecting and enhancing assets and company image
6. Reducing volatility in various areas of the business
7. Developing and supporting people and knowledge base of the organization.
8. Optimizing operational efficiency.

Broad Principles

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

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

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

Risk Appetite

- The Board shall approve the risk profile or appetite of the Company in material risk areas. The objective of risk appetite statements is to restrict the overall risk levels of the Company based on pre-defined strategies.
- Risk appetite is communicated through the Company's strategic plans. The Board and management monitor the risk appetite of the Company relative to the Company's actual results to ensure an appropriate level of risk tolerance throughout the Company
- Risk Manager shall develop the Risk Appetite statements and submit to the Board for review and approval.
- Risk Appetite statements shall be reviewed annually for necessary changes. Any breach of the appetite statements shall be reported to the Board at the next meeting.

Risk identification

- Risk identification forms the core of the Risk Management system. Multiple approaches for risk identification are applied to ensure a comprehensive Risk Identification process.
- The company shall identify sources of risk, areas of impacts, events and their causes with potential consequences. Comprehensive identification is critical, because a risk that is not identified here will be missed from further analysis.

Risk Assessment and Risk Rating

- For all key risks identified during the Risk Identification process, a qualitative and quantitative assessment is carried out. Risk assessment involves different means by which to grade risks in order to assess the possibility of their occurrence and extent of damage their occurrence might cause.

- Likelihood rating and impact rating is as per the Rating parameters defined by the Company.

Risk Prioritization

- After the risk assessment is complete, it is the responsibility of the Risk Management Function to prioritize the key risks to determine which risk are considered key and need to be addressed on a priority basis.
- Prioritization of risks involves using final ratings. The risks are plotted on matrix, to identify which risks are materials from a corporate perspective.
- For this purpose, the materiality scales are used to identify the severity and likelihood of these risks.
- All risks that fall in the red zone are considered high risk and require immediate attention in terms of risk management.
- The findings of risk prioritization are presented to Senior Management and Business Units.

Risk Mitigation Process

- Once the top or critical risks are prioritized, appropriate risk mitigation and management efforts to effectively manage these risks are identified.
- Risk mitigation strategy usually involves identifying a range of options for treating risk, assessing those options, preparing and implementing risk treatment plans. The risk mitigation strategies may include managing the risk through implementation of new internal controls, accepting certain risks, taking insurance, and finally avoiding certain activities that result in unacceptable risks.
- Proposed actions to eliminate, reduce or manage each material risk will be considered and agreed as part of the Risk Assessment Workshops or as part of Management/Risk Management Committee.

Risk Reporting and Monitoring

- An enterprise-wide integrated Risk Management Information System (MIS) needs to be implemented by the company.

- Such information is needed at all levels of the organization to identify, assess and respond to future occurrences of risk events. Pertinent information from both internal and external sources must be captured and shared in a form and time frame that equips personnel to react quickly and efficiently.

Internal Controls and Risk Management

- Individual heads, Employees, Directors are responsible, along with support from Risk Management and other support functions, for establishing effective internal controls within various business processes. Effective design and implementation of the internal control framework is validated by regular internal audits and test of controls for these units.

Review of Risk Management Policy

- The Risk Manager shall have the ownership of the Risk Management Policy and shall be responsible for implementation of the policy aspects. The policy document shall be reviewed and approved by Audit Committee/Board.

RISK MANAGEMENT PROCESSES

Risk Identification Process

- The risk identification process should capture all significant risks and identify potential threats facing the organisation.
- Risk Identification is performed at strategic functions at the entity level as well as at the process level for each function and process.

Business Functions

- For the purpose of risk identification and to ensure that all risks across each business are captured, the Company's operations are divided into Business Functions.

Risk Register

- For the purpose of consolidation of material risks, all the outputs of the various risk identification and assessment processes are reviewed by the Risk Manager in collaboration with Business Heads. These are aggregated in a Risk Register capturing the key risk, mitigating controls and other details about the particular risk.
- Risk Register is to be maintained by the company in the prescribed format which contains a listing of all the risks identified by the company.

- Certain risks will already be a part of the internal control Framework as part of risk impact internal controls. Accordingly, the Risk Register shall be a repository of top Enterprise level risks that are broader and more macro level that require mitigation.

Maintenance and regular Updates

- Risk Manager shall coordinate and maintain the Risk Register and ensure that it is current at all times.
- For this purpose, informal interactions with Departmental Heads are likely to identify new or emerging risks that are considered key.
- Business Heads are the owner of the risk register and shall update risks in the risk register for the department and forwards to the Risk Manager.
- These are updated by the Risk Manager into the consolidated Master Risk Register on a continuous basis.

Periodic Risk Assessment Workshop

- In addition, a formal risk identification process, as outlined above, in the form of a workshop or similar methodology, is performed half yearly to review and revise the Risk Register. For this purpose, Senior Management and Departmental Heads are engaged in an active dialogue to discuss these risks.

- Revised Risk Register is circulated for final approval, once other risk management steps have been completed.

Incident Reporting / Loss Incidents

- Incident / Loss reporting occurs as part of day to day business that requires escalation of major events having financial or reputation impact.
- Such events with significant risks shall be reported by the different businesses and functions on a regular basis to understand the adequacy of the risk management activity and evaluate the effectiveness of the processes.
- The process requires all functional units to report all kinds of events which are unusual in nature and occurring in their daily course of activities.
- Incident Reporting shall be done via email to Risk Management Function explaining the event in details along with event date, likely financial loss, mitigation actions taken and other necessary details
- Risk Management Function shall maintain a log of major incidents reported and also present a summary of major incidents to Audit Committee/Board on a regular basis.

Risk Assessment Process

- Risk Assessment and rating methodologies take a systematic approach to determine the impact of occurrence of a risk and its likelihood of happening. In brief, the assessment involves following key steps

- Rating of each risk as per the probability of the risk event occurring
- Rating the risk as per the financial impact of that risk event should the risk event occur. The two parameters provide the quantitative element to risk assessment.

a) **Risk Identification and Categorisation** – the process of identifying the company's exposure to uncertainty classified as Strategic / Business / Operational.

b) **Risk Description** – the method of systematically capturing and recording the company's identified risks in a structured format

c) **Risk Estimation** – the process for estimating the cost of likely impact either by quantitative, semi-quantitative or qualitative approach.

- Once the risks are analysed, these can be plotted on a heat map and shared with the Audit Committee/Board.
- As part of the above risk assessment, key risks falling in the red zone will be subject to greater risk management by way of monitoring and mitigating controls.
- Accordingly, risks with a residual risk rating as are considered significant risk which require risk mitigation on a priority basis.

RISK MONITORING AND RISK REPORTING

Risk Monitoring

- The risks are to be monitored and treated by the Risk team under the guidance of Risk owner on a frequent basis. The risk owner reviews all the risks identified and profiled on quarterly basis with reference to the risk mitigation plan.
- A risk mitigation action plan is outlined for all priority risks in the high and medium categories. Senior Management and Business Heads design an action plan to mitigate and monitor each of these key risks.
- An action plan and status reporting is implemented to log actions proposed to mitigate risks and track status of evidence, of regular review and monitoring of the profile and action plan. The action plan and status reporting is circulated quarterly to stakeholders to update on the status of mitigation efforts.
- The Company shall also introduce some high level Key Risk Indicators that will provide leading and lagging indicators on some key risks.

Risk Reporting

- The Company's MIS provides the Board and senior management in clear and concise manner timely and relevant information concerning the risk profile. The MIS is capable of capturing major policy breaches and effective in promptly reporting such breaches to senior management, as well as to ensure that appropriate follow-up actions are taken.

- Most of the internal reporting and day to day interactions between senior management and Business Functions ensures that senior management is aware of key risks and unusual incidents or loss events.
- In addition to this, formal risk reporting has been introduced to highlight risk profiles, trends, key issues and effectiveness of Risk Management Systems.
- The on-going business success of the Company depends to a great extent on risk awareness and the ability to manage risks. This requires transparency of all risk taking activities and thus an effective risk reporting system.
- The following is a summary of the Risk Management Reporting that communicates the risk profile and risk mitigation efforts.

a) Company and Business Risk Profile

- In order to manage risks, key risk dash boards are implemented to review risk levels at a Company level as well as at business function levels.

b) Risk Monitoring

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the updation of the Risk Matrix will be done on a regular basis.

Action Plan and Status

- A risk mitigation action plan is outlined for all priority risks in the high and medium categories. Senior Management and Business Heads design an action plan to mitigate and monitor each of these key risks.
- An action plan and status reporting is implemented to log actions proposed to mitigate risks and track status of Evidence, of regular review and monitoring of the profile and action plan.

The action plan and status reporting is reported to Audit/Risk Committee to update on the status of mitigation efforts

OTHER ASPECTS RELATING TO RISK MANAGEMENT

Other Risk Related Policies

- The Company has implemented other risk management related policies separately for areas that require comprehensive risk identification and implementation.

Integration of Audit and Risk Management

- Internal control is broadly defined as a process, implemented by the Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Individual Business Units are responsible, along with support from Risk Management and other support functions, for establishing effective internal controls within various business processes. Effective design and implementation of the internal control framework is validated by regular internal audits and test of controls for these units.
- The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Company to respond to a variety of operational, financial, and commercial risks. These elements include:

Policies and procedures

- Policies and procedures are the foundation for an effective internal control framework that then supports a strong risk management framework. Written procedures support the policies where appropriate.

Business planning and budgeting

- The business planning and budgeting process is used to set objectives, agree action plans, and allocate resources. Progress towards meeting business plan objectives is monitored regularly.

Independent Internal Audit function

- A risk based internal audit approach is adopted by the company to ensure adequacy and effectiveness of internal control and policy framework.

Audit Committee.

- The Audit Committee is required to report to the Board on internal controls, and to alert it of any emerging issues. The committee is therefore well placed to provide advice to the Board on the effectiveness of the internal control system, including the Company's system for the management of risk. Detailed Internal Control over Financial reporting forms part of the "Internal Control Systems and Controls" policy.

Risk Management Culture, Training and Awareness

- To realise return on risk, senior management needs to ensure risk awareness is embedded into the organisation culture. This includes its consideration in key decisions, preparedness among staff to take ownership of risk within their operations and ultimately the development of integrated metrics that seek to align risk and performance management across the business
- All employees should have a clear understanding of their risk management responsibilities and be held accountable for their performance in that respect.
- Periodic risk management training is imparted to company employees and senior management to inculcate a uniform risk management culture. Targeted trainings on specific topics are undertaken by select employees based on their role in the Risk Management Framework.

Adequacy of Insurance

- On an annual basis, along with key Business Heads, performs an annual review of Insurance Policies to evaluate the existing insurance policies for adequacy of coverage, identification of key risks covered by these policies, compliance of policies.
- Insurance cover adequacy is reviewed taking into consideration historical events and proposed business growth. Any significant gaps in terms of shortfall of insurance will be reviewed with Senior Management and additional coverage proposed.
- On completion of the insurance review, key findings are summarized and reported to Senior Management. Action points / Issues arising from this reporting, if any, are noted and followed up.

Review of Risk Management System and Policy

Progress on implementation of Risk Management system is reviewed by the Audit Committee and submitted to the Board and the Policy should be reviewed, if required, by a change in circumstances. Changes to the Policy require Board/Committee approval.

Applicability

This Policy shall come into force with effect from 1st April 2019.
This Policy applies to all areas of the Company's operations.

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