

## RISK MANAGEMENT

### POLICY OF

### FILATEX INDIA LIMITED

#### 1. PREFACE:

Business operations being continuous activity, risks becoming integral part and even well thought out decisions can have uncertain outcomes that can impact the enterprise's performance and prospects. Comprehensive risk management process is therefore essential for survival in today's competitive business world and more so with rising globalization, we continuously evolve our risk management system. In overall perspective, the business operations can have risks arising out of fiscal policies, political upheavals, demand for the product, input costs, global competition, interest rates, exchange rate fluctuation etc.

Section 134 (3)(n) of the Companies Act, 2013 requires every company to attach to its Board Report a statement indicating development and implementation of a Risk Management Policy for the Company including identification therein of element of risks, if any, which in the opinion of the Board may threaten the existence of the Company.

Clause 49 (VI) of the Amended Listing Agreement between listed companies and the Stock Exchanges, inter alia, provides for a mandatory requirement for all listed companies to formulate 'Risk Management Policy'.

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.

#### 2. PURPOSE AND SCOPE:

This policy establishes the process for the management of risks faced by Filatex India Limited ("FIL"). The aim of risk management is to maximize opportunities in all activities and to minimize adversity. This policy applies to all activities and processes associated with the normal operations of FIL. Effective risk management allows the Company to:

- ❖ Embed the management of risk as an integral part of its business processes.
- ❖ Establish an effective system of risk identification, analysis, evaluation and treatment within all areas and all levels.
- ❖ Make informed decisions.
- ❖ Avoid exposure to significant reputational or financial loss.
- ❖ Assess the benefits and costs of implementation of available options and controls to manage risk.

- ❖ Have increased confidence in achieving its goals.
- ❖ Strengthen corporate governance procedures.

Thus, it is the responsibility of all Board members, Senior Management and employees to identify, analyze, evaluate, respond, monitor and communicate risks associated with any activity, function or process within their relevant scope of responsibility and authority.

### 3. **RISK STRATEGY:**

FIL recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. FIL, being one of the largest yarn manufacturers in India, is committed towards excellence. The product range of the company comprises both in Semi dull & Bright stream as under:

- ❖ Polyester Chips
- ❖ Partially Oriented Yarn (POY)
- ❖ Fully Drawn Yarn (FDY)
- ❖ Drawn Textured Yarn (DTY)
- ❖ Polypropylene Crimped/Twisted/Textured Yarns
- ❖ Narrow Woven Fabric (NWF)

### **Types of Risks:**

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, Retention of talent etc. Business risk, inter-alia, further includes Financial risk, Political risk, Legal risk etc.

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 Company 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.

### 4. **RISK MANAGEMENT FRAMEWORK:**

In principle, risk always results as a consequence of activities or as a consequence of non- activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks.

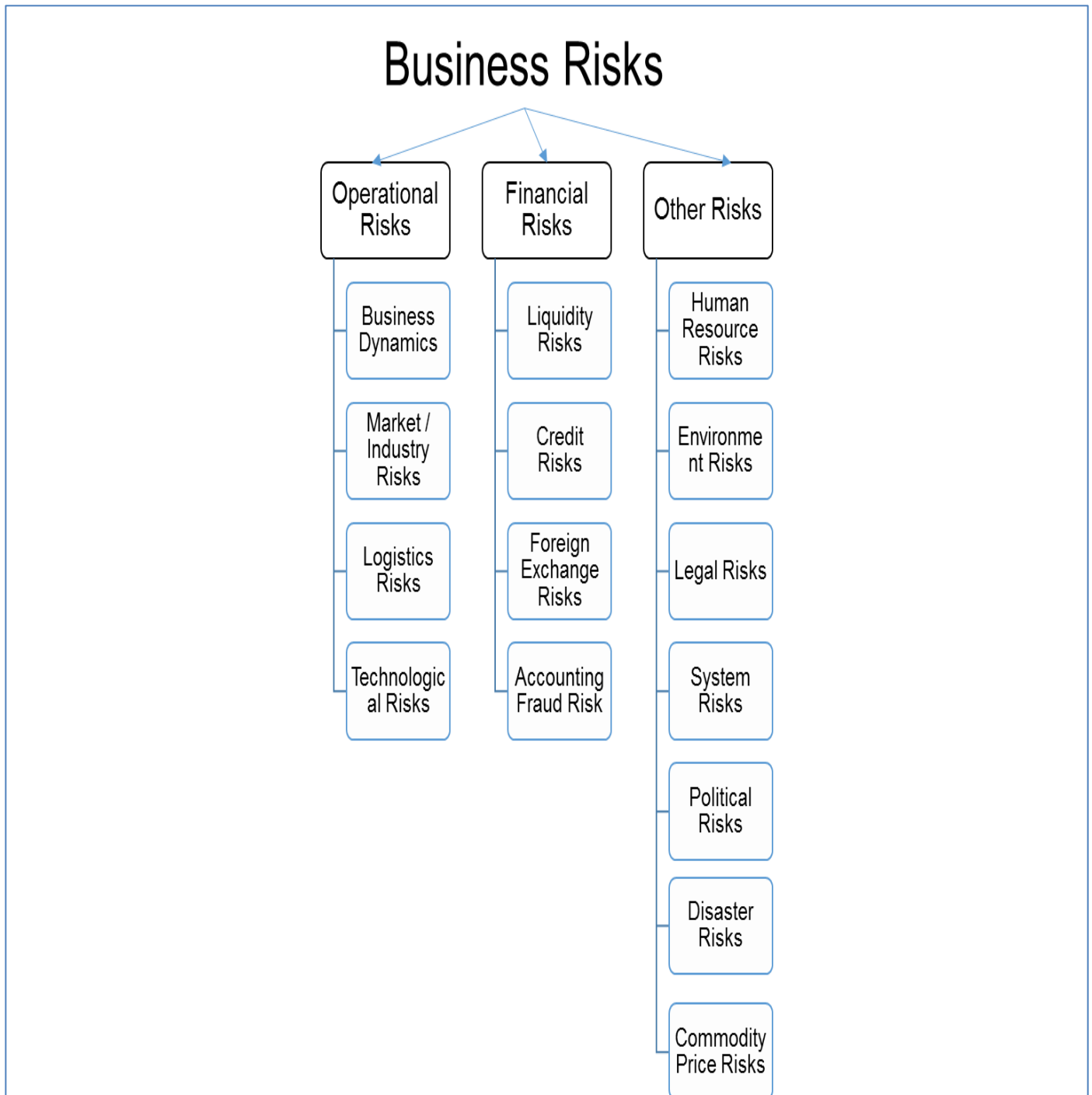
Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures. FIL adopts a systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating risks proactively and help to achieve stated objectives.

The Company will consider activities at all levels of the organization and its Risk Management with focus on three key elements, viz.,

- (1) Risk Assessment- detailed study of threats and vulnerability and resultant exposure to various risks.
- (2) Risk Management and Monitoring- the probability of risk assumption is estimated with available data and information.
- (3) Risk Mitigation- Measures adopted to mitigate risk by the Company.

**5. RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED:**

We have divided the risks into three broad categories, namely:-



## **5.1 OPERATIONAL RISKS**

1) **Business Dynamics**: These include:-

- ❖ Organization and management risks.
- ❖ Production, process and productivity risks.
- ❖ Business interruption risks consisting internal and external factors.

**Risk Mitigation measures**:

- ❖ The Company functions under a well-defined organization structure with focus on role clarity.
- ❖ Proper systems are in place in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- ❖ Selection of technology, standardization of processes, clear standard operating procedures, training, upkeep of assets etc.
- ❖ Proper training and development, incentives and reward system for employees at all levels.

2) **Market Risks / Industry Risks**: These include:

- ❖ Raw material availability and movement of rates.
- ❖ Demand and Supply Risks.
- ❖ Quantities, Qualities, Suppliers and lead time.
- ❖ Competition.
- ❖ Increase in commercial costs.

**Risk Mitigation Measures**:

- ❖ Filatex management team & key executives work cohesively to track on daily basis crude prices, key raw material prices, foreign exchange rates, shipping rates etc. to minimize adverse impact due to changes in external scenario.
- ❖ Sales & Marketing team manages the risk of supply & demand by constantly tracking market movements and keeps updating the product mix.
- ❖ Tracking micro and macro-economic level data, market trends and forecasts by expert agencies, internal review by team of experts.
- ❖ Alternative sources are developed for uninterrupted supply of raw materials.
- ❖ Demand and supply are external factors on which company has no control. However based on experience gained from the past and by following the market dynamics as they evolve, movement by competition, economic policies and growth patterns of different segments, the Company is able to estimate the demand during a particular period and accordingly supply is planned and adjusted.
- ❖ 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.
- ❖ Proper inventory control systems have been put in place.
- ❖ The Company has been increasing operational efficiency and continue to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.
- ❖ Effective steps are being taken to reduce cost of production on a continuing basis through focus on cost and realization, budgets, budgetary controls, management control system, close watch on market dynamics etc.

- ❖ On competition side, keeping a close watch on competitor's strengths and weaknesses, competition dynamics etc.

3) **Logistics Risks:** Use of outside transport sources.

**Risk Mitigation Measures:**

- ❖ Company has several dedicated transport groups to handle all requirements relating to movement of raw material, finished goods, scrap etc.
- ❖ Long term agreements with reputed transporters to ensure smooth operations.
- ❖ Flexibility of revision of prices in the agreements to ensure cost savings.

4) **Technological Risks:** The Company strongly believes that technological obsolescence is a practical reality.

**Risk Mitigation Measures:**

- ❖ Technological obsolescence is evaluated on a continual basis and the necessary incremental investments are made to upgrade plant, equipment & operations.

## **5.2 FINANCIAL RISKS**

1) **Liquidity Risks:** These include:

- ❖ Financial solvency and liquidity risks
- ❖ Cash management risks

**Risk Mitigation Measures:**

- ❖ Annual business plans are prepared after detailed discussion at appropriate levels within the organization.
- ❖ Annual plans are further divided into quarterly & monthly plans and put up to management for detailed discussion.
- ❖ Actual performances are exhaustively reviewed against the budgeted numbers & variance analysis are prepared to have better financial planning and study of factors giving rise to variances.
- ❖ Daily and monthly cash flows are prepared and monitored at senior levels to assess the fund requirements and ensure utilization of funds in an effective manner.

2) **Credit Risks:** These include risks in settlement of dues by dealers/customers

**Risk Mitigation Measures:**

- ❖ Systems put in place for assessment of creditworthiness of dealers/customers.
- ❖ Provision for bad and doubtful debts are appropriately made in books of accounts.
- ❖ Collections are reviewed every week at appropriate levels within the organization.
- ❖ Proper follow-up systems are in place as per the credit policy with respective debtors.

### 3) **Foreign Exchange Risks:**

- ❖ We face foreign currency exposure for our sales in other countries and from our purchases from overseas suppliers in USD/Euro and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.
- ❖ Interest Rate Risks

#### **Risk Mitigation Measures:**

- ❖ 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.
- ❖ 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.
- ❖ Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with a hedge cover as per policy.
- ❖ Company keeps tracking opportunities for export which provides a natural hedge for foreign exchange risk against imports & repayments.
- ❖ Finance team regularly monitors the cost of capital & keeps switching its loans to sources that have lower interest rate.
- ❖ Our risk management policy on foreign exchange has been approved by the Board of Directors and includes separate front and back offices for forex dealings, implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

### 4) **Accounting Fraud Risk:**

- ❖ Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating expenses, understating revenues etc.

#### **Risk Mitigation Measures:**

- ❖ 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
- ❖ Employing mechanisms for multiple authorization of key transactions with cross checks

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

### **5.3 OTHER RISKS**

#### **1) Human Resource Risks:**

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

#### **Risk Mitigation Measures:**

- ❖ Ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational excellence.
- ❖ Employee Retention program through incentives, rewards & recognition.
- ❖ Company has proper recruitment policy for recruitment of personnel at various levels in the organization ensuring that they can grow and contribute towards organizational excellence.
- ❖ Proper appraisal systems with the active participation of the employee are in place.
- ❖ Activities relating to the Welfare of employees are undertaken.
- ❖ Employees are encouraged to give suggestions and discuss any problems with their Superiors.
- ❖ Efforts are made to keep cordial relations with employees at all level.

#### **2) Environment Risks:**

The Company endeavors to protect the environment in all its activities, as a social responsibility. The legal exposure in this regard arises when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding which is an offence.

#### **Risk Mitigation Measures:**

- ❖ Installation of Effluent Treatment Plants and sewage treatment plants at its various manufacturing units.
- ❖ Setting up of Rain harvesting wells at its various manufacturing units.
- ❖ Extensive plantation of trees around manufacturing plants is undertaken for green belt development.
- ❖ Setting up of electrostatic precipitators, filters etc. as required from site to site.
- ❖ Focus on efficient upkeep and operations of environment protection system and equipments.

**3) Legal Risks:** Legal risk is the risk in which the Company is exposed to legal action. 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.

#### **Risk Mitigation Measures:**

- ❖ 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 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 established a compliance management system in the organisation and Secretary of the Company being the focal point, get the quarterly compliance reports from various unit heads and being placed before the Board at every quarterly Board meeting of the Company.

#### **4) System Risks:**

- ❖ System capability.
- ❖ System reliability.
- ❖ Data integrity risks.

#### **Risk Mitigation Measures:**

- ❖ IT/ERP department maintains and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- ❖ The Company ensures "Data Security", by having access control/ restrictions.
- ❖ Data backups are taken regularly and in a methodical way.
- ❖ Installation of antivirus software to create firewalls.

#### **5) Political risks:**

Any adverse change in the political environment of the country, government policies on textile industry etc. may have an impact in growth strategies of the company.

#### **Risk Mitigation Measures:**

- ❖ Reviewing and monitoring the country's textile related industrial, labour and other related policies and involvement in representative industry-bodies.

#### **6) Disaster Risks: Natural risks like Fire, Earthquakes, etc.**

#### **Risk Mitigation Measures:**

- ❖ The properties of the company are insured against natural risks, like fire, Earthquakes, etc. with periodical review of adequacy, rates and risks covered.
- ❖ Fire extinguishers have been placed at fire sensitive locations.
- ❖ First aid training is given to watch and ward staff and safety personnel.
- ❖ Well-designed hydrant systems and training of personnel for the same.



## **7) Commodity Price Risks & Hedging Activities**

As per SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 all the listed entities are required to make disclosure regarding commodities price risk and its hedging activities. SEBI also prescribed a format for disclosure.

The Company at present is not dealing in commodities and therefore there is no hedging activity as of now. As and when the Company will deal in commodities, Company will make proper disclosure in the required format regarding commodity price risk and its hedging activities.

## **6. AMENDMENTS:**

This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto.

## **7. DISCLAIMER CLAUSE:**

The Management cautions 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 management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.