Risk Management Policy

&

Procedures

Premier Ltd.

Risk management is attempting to identify and then manage threats that could severely impact 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.

The Clause 49 of the Listing Agreement states as under:

“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 of the Company”

The Companies Act, 2013, also make it mandatory for Audit Committee to evaluate risk management systems.

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 minimise their adverse impact on the organisation.

Risk Strategy:

Premier recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner

The Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky businesses;
- Shared, by following a middle path between retaining and transferring risk.

The product range of the company comprises of manufacture and marketing of CNC machines, heavy engineering & automotive.

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 would need to identify the risks that it faces in trying to achieve the objectives of the firm. 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 firm and which of them are not significant enough to deserve further attention. As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

Risk Management Framework

Objectives must exist before management can identify potential events affecting their achievement. 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 products.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating new geographic markets.
- Continuing to enhance our industry expertise.
- Enhance our capabilities through technology alliances and acquisitions.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality production.
- Further develop Culture of Innovation.
- Attract and retain quality technical associates and augmenting their training.

Reporting:

- Maintain high standards of Corporate Governance and public disclosure.

Compliance:

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

In principle, 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

Premier 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.

We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; are considered in the risk management framework. All these 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

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks. 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.

Risk Management and Risk Monitoring

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. Economic Environment and Market conditions
2. Fluctuations in Foreign Exchange
3. Political Environment
4. Competition
5. Revenue Concentration
6. Inflation and Cost Structure
7. Technological Obsolescence
8. Financial Reporting Risks
9. Risk of Corporate accounting fraud:
10. Legal Risk
11. Compliance with Local Laws
12. Human Resource Management

<u>Risks specific to the Company and the mitigation measures adopted</u>

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

   Based on experience gained from the past and by following the market dynamics as they evolve, 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 organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organisation and management risks,
- Production, process and productivity risks,
- Business interruption risks,
- Profitability

Risk mitigation measures:

- The Company functions under a well defined organization structure.
- Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
- Proper policies are followed in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.

3) Liquidity Risks:

- Financial solvency and liquidity risks
- Borrowing limits

Risk Mitigation Measures:

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.
- Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.

4) Credit Risks:

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.

5) Logistics Risks:

- Use of outside transport sources.

Risk Mitigation Measures:

- Exploring possibility of an in-house logistic mechanism if the situation demands.
- Possibilities to optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.
- Company has a dedicated transport group to handle all requirements relating to movement of goods, capital equipment, domestic and imported, as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects.

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:

- Raw materials are procured from different sources at competitive prices.
- 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 the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company's products.
- 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 etc.
- Proper inventory control systems have been put in place.

7) Human Resource Risks:

a) Employee turnover risks, involving replacement risks, training risks, skill risks, etc.
b) Unrest Risks due to Strikes and Lockouts.

Risk Mitigation Measures:

- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
- Employees are trained at regular intervals to upgrade their skills.
- Labour problems are obviated by negotiations and conciliation.
- Activities relating to the Welfare of employees are undertaken.
- Employees are encouraged to make suggestions and discuss any problems with their Superiors.

8) Disaster Risks:

- Natural risks like Fire, Floods, Earthquakes, etc.

Risk Mitigation Measures:

- The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
- Fire extinguishers have been placed at fire sensitive locations.
- First aid training is given to watch and ward staff and safety personnel.
- Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.

9) System Risks:

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

Risk Mitigation Measures:

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

10) Legal Risks:

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.
- The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- Contracts are finalized as per the advice from legal professionals and Advocates.
- Insurance policies are audited to avoid any later disputes.
- Timely payment of insurance and full coverage of properties of the Company under insurance.
- Internal control systems for proper control on the operations of the Company and to detect any frauds.

12) Foreign Exchange and Interest Rate Risk Management:

A. Exposures

1. The Company does not have much exposure in foreign exchange transactions.

B. Risk Identification

2. 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.

3. All exposures are considered month wise for the current year and quarter wise for later exposures.

C. Risk Measurement

4. Measurement of the risk will be done through the net open position in a currency, multiplied by the predetermined "stop loss" levels. The net open position is the difference between un- hedged receipts and payments in each currency. Stop loss level means the predetermined level at which an un- hedged exposure could be hedged.

D. Risk Control

1. Risk limitation or reduction is the prime objective in framing the policy.

2. The company will hedge the risk from time to time and the Company's bankers will also be consulted to mitigate exchange rate fluctuations.

****