

CHOTHANI FOODS LIMITED

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RISK MANAGEMENT POLICY

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SHORT TITLE AND COMMENCEMENT:

This policy may be called Chothani Foods Limited's Risk Management Policy.

BACKGROUND

Chothani Foods Limited ('the Company') is engaged in the business of process, produce, mix, pack, preserve, freeze, extract, refine, manufacture, import, export, buy, sell, trade and deal in all types of masala and spices including cloves, pepper, cumin seeds, cinnamon, copra, etc, processed foods, health foods, protein foods, food products, agro foods, fast foods, packed foods, milk foods, health and diet drinks, extruded foods, frozen foods, dehydrated foods, precooked foods, canned foods, preserved foods, bakery products and confectionery items such as breads, biscuits, sweets, cakes, pastries, cookies, wafers, condoles, lemon drops, chocolate, toffees, tinned fruits, chewing gum, bubble gum, detergents, tea and coffee, vegetables, fruits, jams, jelly, pickles, squashes, sausages, nutrient, health and diet foods / drinks, extruded foods, confectionery items, sweets, cereals products and any other food products in and outside India and manufacture, trade, import and export all kinds and types of food products and drinks including all types of masala and spices. The business activities of the Company carry various internal and external risks.

Risks are events, situations or circumstances which may lead to adverse consequences on the Company's business. Effective risk management process is a key to sustained operations thereby protecting shareholder value, improving governance process, achieving strategic objectives and being well prepared for adverse situations or unforeseen circumstances, if they occur in the lifecycle of the business activities.

Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organization continuously manages various types of risks. Formal and systematic approaches to managing risks are now regarded as good management practice and are also called as Risk Management.

‘Risk Management’ is the identification, assessment, and prioritization of risks 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.

Effective risk management requires:

-  A strategic focus,
-  Forward thinking and active approaches to management
-  Balance between the cost of managing risk and the anticipated benefits, and
-  Contingency planning in the event that critical threats are realized.

LEGAL FRAMEWORK

Risk Management is a key aspect of the “Corporate Governance Principles” which aims to improvise the governance practices across the Company’s activities. Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

Risk Management Policy is framed as per the following regulatory requirements:

A. COMPANIES ACT, 2013

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.

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.

SCHEDULE IV [Section 149(8)] to the Companies Act, 2013 also casts obligation on Independent Directors to help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct and also to satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

Clause 49 of the Listing Agreement also lays that the board should fulfil certain key functions, including:

Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments.

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Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards

OBJECTIVE

In terms of the requirements of Section 134 of the Companies Act, 2013, the Company must lay down procedures to inform Board members about the Risk Assessment and Minimization Procedures.

This document lays down the framework of Risk Management at Chothani Foods Limited and defines the policy for the same. 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.

The process includes the prioritization of risks, selection of appropriate mitigation strategies and periodic reviews of the progress on the management of risks. The process also covers the proposed authority and responsibility structure and is meant to cover all the activities of the company.

SCOPE OF RISK MANAGEMENT POLICY

- ✚ To identify the risks the Company is exposed to due to the nature of business activity.
- ✚ To review the risk bearing capacity of the Company in light of its reserves, insurance coverage or other such financial structures.
- ✚ To decide the process of management of these risks through a variety of risk management tools.
- ✚ To establish process to monitor and control the risks as per the process.
- ✚ To create an efficient process for reporting the key parameters measuring the risks and the performance of the Risk Management Tools.

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- ✚ To inform the Board members about the risk assessment and its minimization procedures.
- ✚ Reviewing and approving risk disclosure statements in any public documents and disclosures.
- ✚ Put in place appropriate structures to proactively monitor and manage the inherent risks in businesses with unique / relatively high-risk profiles.
- ✚ Monitoring and reviewing of the risk management plan and such other functions as it may be delegated to it by the board.
- ✚ 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.
- ✚ To establish a framework for the company's risk management process and to ensure its implementation.
- ✚ To assure business growth with financial stability.

RISK IDENTIFICATION

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 Managing Director (MD) along with their considered views and recommendations for risk mitigation.

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

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To identify organization's exposure to uncertainty, risk may be classified in the following:

- ✚ Strategic
- ✚ Operational
- ✚ Financial
- ✚ Hazard

Risk Description: To display the identified risks in a structured format.

Name of Risk	
Scope of Risk	Qualitative description of events with size, type, number etc.
Nature of Risk	Strategic, Operational, Financial, Hazard
Quantification of Risk	Significance and Probability
Risk Tolerance/ Appetite	Loss Potential and Financial Impact of Risk
Risk Treatment and Control Mechanism	a) Primary Means b) Level of Confidence c) Monitoring and Review
Potential Action for Improvement	Recommendations to Reduce Risk
Strategy and Policy Development	Identification of Function Responsible to develop Strategy and Policy

RISK EVALUATION

After risk analysis, comparison of estimated risks against organization risk bearing capacity is required. It is to be used to make decisions about the significance of risks and whether each specific risk to be accepted or treated.

RISK ESTIMATION

- ✚ Can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences.
- ✚ Impact level on performance/profit – Both Threats and Opportunities

RISK REPORTING

Internal Reporting

- ✚ Vertical Heads
- ✚ Managing Director
- ✚ Audit Committee
- ✚ Board of Directors

External Reporting

- ✚ To communicate to the stakeholders on regular basis as part of Corporate Governance.

DEVELOPMENT OF ACTION PLAN

- ✚ The Audit Committee of the Company shall overview the functioning of Risk Management Plan, monitor the implementation thereof, review the same and suggest changes required from time to time .The members of the ~~Risk and~~ Audit Committee shall discharge the role of “Think Tank”, ideate and bounce off their collective suggestions to the Board for periodic updating of the Risk Management Plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses the Company is engaged in or shall undertake in future.

- ✚ Audit Committee shall critically examine the report of MD and each identified risk shall be assessed for its likely impact vis a vis the resources at the Company's disposal.
- ✚ The Audit Committee shall approve the Risk Management (including Risk Treatment) strategy, control structure and policy guidelines and delegate authority and accountability for risk management to the Company's executive team.

The guidelines shall include prescription on:

RISK TREATMENT

Treatment of Risk through the process of selecting and implementing measures to mitigate risks.

To prioritize risk control actions in terms of their potential to benefit the organization.

Risk treatment includes risk control/ mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc. for

- ✚ Effective and efficient operations
- ✚ Effective internal controls
- ✚ Compliance with laws and regulations

Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

Risk Registers

~~Risk Registers shall be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Risk Managers and Risk Officers to be identified for proper maintenance of the Risk~~

~~Registers which will facilitate reporting of the effectiveness of the risk treatment to MD, Audit Committee and the Board.~~

ENTERPRISE RISK PLANNING (ERP PACKAGE)

ERP system shall play a key role in timely availability of all data/reports required for the Committee to develop the Action Plan as stated above.

The Board shall have the discretion to deal with certain risks (may be called Key or Highly Sensitive Risks) in the manner it may deem fit. Mitigation of such Highly Sensitive/Key risks and effectiveness of their mitigation measures and review of the strategy may be directly discussed by the Board members with Audit Committee.

ROLE OF AUDIT COMMITTEE

The following shall serve as the Role and Responsibility of the Audit Committee authorized to evaluate the effectiveness of the Risk Management Framework:

- ✚ Review of the strategy for implementing risk management policy
- ✚ To examine the organization structure relating to Risk management
- ✚ Evaluate the efficacy of Risk Management Systems – Recording and Reporting
- ✚ To review all hedging strategies/risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines
- ✚ To define internal control measures to facilitate a smooth functioning of the risk management systems
- ✚ Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management systems.

INTEGRATION OF RISK MANAGEMENT STRATEGY

Chothani Foods Limited's risk management strategy is to be integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aid in establishing competitive advantage and allow management to develop reasonable assurance regarding the achievement of the Company's objectives.

DISCLOSURE IN BOARD'S REPORT

Board of Directors shall include 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.

IMPLEMENTATION

This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company. Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and Audit Committee.

REVIEW

This policy shall evolve by review by the ~~Risk and~~ Audit Committee and the Board from time to time as may be necessary.
