RISK MANAGEMENT POLICY

(Pursuant to sec. 134(n) of the Companies Act, 2013)

Oxford Dictionary defines the term "**risk**" *as a chance or possibility of danger, loss, injury or other adverse consequence.*

Risk management is attempting to identify and then manage threats that could severely impact or bring down 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 Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009.

The objective of Risk Management is to create and protect shareholder value by minimizing threats or losses, and identifying and maximizing opportunities.

Risk Management

i) The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

ii) The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.

RISK STRATEGY:

BPL 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 Company believes that 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;
* Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
* Shared, by following a middle path between retaining and transferring risk.
The common risks inter alia are: **Regulations, competition, Business risk, Technology obsolescence, 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

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.

Risk Management and Risk Monitoring are important in recognizing and controlling risks.

BPL adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations.

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.

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:

Economic slowdowns or factors that affect the economic health of our customers' countries and the said industries may increase risk to our revenue growth.

Strategically, we seek to continuously expand the customer base to maximise the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of our record of satisfactory performance in our earlier dealings.

To counter pricing pressures caused by strong competition, the Company has been increasing operational efficiency and continued to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.

2. Fluctuations in Foreign Exchange:

While our functional currency is the Indian rupee, we transact a significant portion of our business in USD and other currencies and accordingly face foreign currency exposure from our sales in other countries and from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

We manage risk on account of foreign currency fluctuations through limited hedging of specific transactions with our Bankers. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

3. Competition:

The markets for pharma are rapidly evolving and highly competitive and we meet competition by establishment of new capacities, expansion of existing capacities and consolidation of operations.

4. Revenue Concentration:

High concentration in any single pharma product exposes the company to the risks inherent in that segment. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks.

5. Inflation and Cost Structure:

The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for procurement of long delivery and strategic raw materials and stores and those amenable to just-in-time inventories.

At organizational level, cost optimisation and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial model.

6. Technological Obsolescence:

The company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.

7. Financial Reporting Risks:

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are constantly being revised or modified. We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with Indian GAAP and in accordance with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period.

8.Risk of Corporate accounting fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating revenues, understating expenses etc. The Company mitigates this risk by -

- Understanding the applicable laws and regulations ,
- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives ,
- Instituting Whistle blower 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 authorisation of key transactions with cross checks ,
• Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even non-adherence to procedures.

9. Legal Risk:

Legal risk is the risk in which the Company is exposed to legal action .We have an 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.

10. Compliance with Local Laws :

The Company is subject to additional risks, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of goods and technologies.

11. Quality and Project Management:

Our Commitment towards total Quality Management is to forge the Human Resources of our organisation into a team that promotes continual improvement in quality of products and services.

12. Human Resource Management:

BPL Human Resources Development (HRD) Department add value by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to manufacturing procedures etc.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance.

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.

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.
- 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
- Cash management risks

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.
- Cash management services are availed from Bank to avoid any loss of interest on collections .Exposures to Foreign Exchange transactions are supported by LCs and Bank Guarantees and steps to protect undue fluctuations in rates etc.

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:

- 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 pharma (domestic and imported) as and when necessary with a well-defined system of allocation of vehicles based on priorities and time aspects.

6) <u>Market Risks / Industry Risks:</u>

- 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.

<u>7) Human Resource Risks:</u>

a) Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.

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.
- Activities relating to the welfare of employees are undertaken.
- Employees are encouraged to make suggestions and discuss any problems with their Superiors.

<u>8) Disaster Risks:</u>

- 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 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.

11. Foreign Exchange and Interest Rate Risk Management:

Exposures: The Company has currency exposures in the form of sales to foreign countries.

Risk Identification

- 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.

- All exposures are considered month wise for the current year and quarter wise for later exposures. Besides, the cash flows are prepared and monitored for each currency separately.
- The company's budgeted exchange rates are not be used for quotations or exposure management or performance evaluation of treasury.

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