

# **NAVA BHARAT VENTURES LIMITED**

## ***RISK MANAGEMENT – POLICY AND PROCEDURES***

*This report encompasses policies and procedures relating to the risk management of the Company. The risks detailed herein are not exhaustive and are for information purposes only. This report may contain forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. The Company undertakes no duty to update any forward-looking statements.*

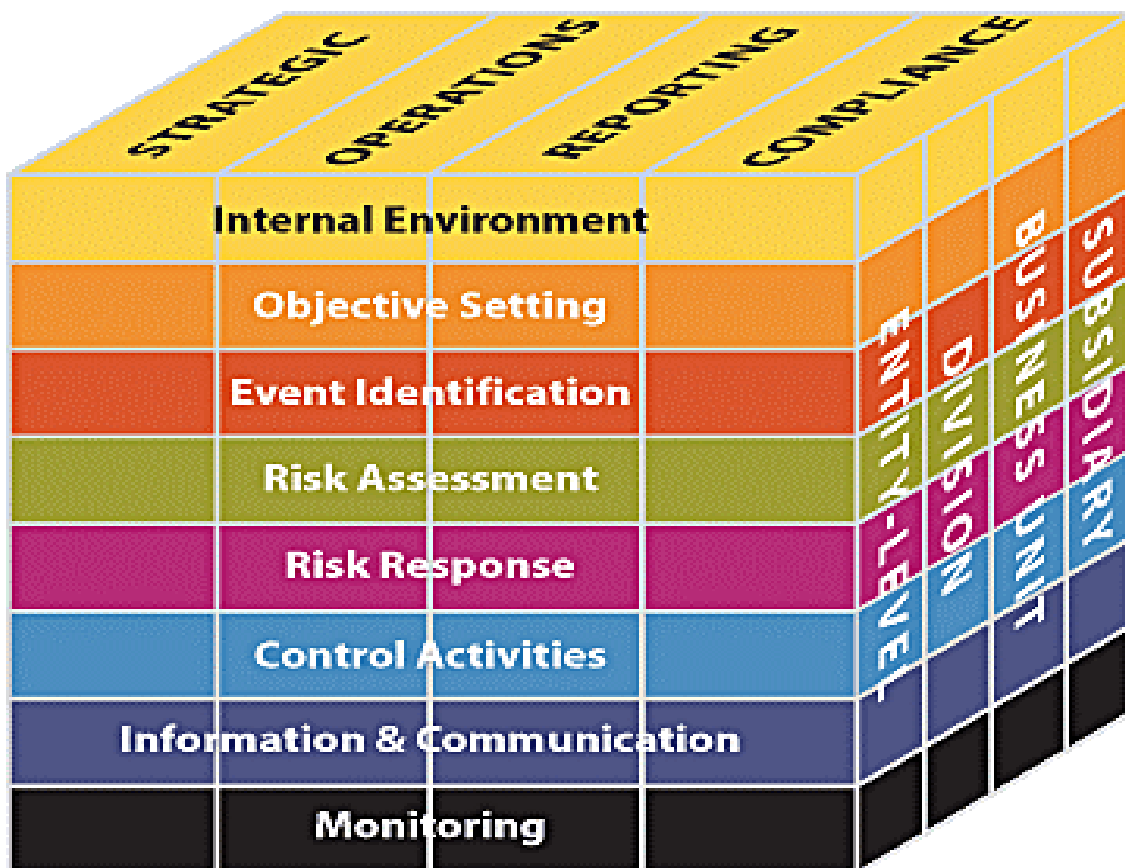
Nava Bharat Ventures Limited (NBV) is a diversified manufacturing company committed to excellence. The product range covers bulk ferro alloys like ferro chrome, silico manganese and ferro manganese to cater to the requirements of domestic and overseas customers. The business activities of the company now comprise:

- Manufacture & marketing of bulk ferro alloys
- Power generation with and eco-friendly technology
- Manufacture and marketing of white crystal sugar and downstream products

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 environment, technology, 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**

We adopt systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. We believe that this would ensure mitigating steps proactively and help achieve stated objectives. The entity's objectives can be viewed in the context of four categories: (1) Strategic (2) Operations (3) Reporting and (4) Compliance. We consider activities at all levels of the organization, viz., (1) Enterprise level; (2) Division level; (3) Business Unit level; (4) Subsidiary level, in our risk management framework. These eight 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**

To meet the stated objectives, it is imperative to make effective strategies for exploiting opportunities and as a part of this the Company has identified key risks and developed plans for managing the same.

### **Organizational Objectives**

Strategic:

1. Organizational growth.
2. Comprehensive range of products.
3. Sustenance and growth of strong relationships with blue chip customers.
4. Expanding presence in existing markets and penetrating new geographic markets.
5. Continuing to enhance industry expertise.
6. Enhancing capabilities through technology alliances and acquisitions.

Operations:

7. Consistent revenue growth.
8. Consistent profitability.
9. High quality production.
10. Developing culture of innovation.

11. Attracting and retaining quality technical associates and augmenting their training.

Reporting:

12. Maintaining high standards of Corporate Governance and public disclosure.

Compliance:

13. Ensuring stricter adherence to polices, procedures and laws/ rules/ regulations/ standards.

The objectives of the Company are subject to risks that are external and internal as enumerated below.

<b>External Risk Factors</b>	<b>Internal Risk Factors</b>
Economic Environment and Market conditions Fluctuations in Foreign Exchange Political Environment Competition Revenue concentration Inflation and cost structure Technology obsolescence Risk of Corporate Accounting Fraud	Financial reporting risks Contractual compliance Compliance with local laws Quality and Project management Environmental management Human resource management Culture and values

### **Risk Management and Risk Monitoring**

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 discussion given below embraces the Company's risk identification and mitigation strategies like risk control, avoidance, etc.

#### **1. Economic Environment and Market conditions**

The Company markets its products primarily to all integrated steel plants in the country besides export to Japan, Korea, China, USA, etc. Consequently, most of the revenues are derived from the customers primarily located in these regions and customers concentrated in iron and steel industries. Economic slowdowns or factors that affect the economic health of the customers' countries and iron and steel industries may increase the risk to Company's revenue growth.

While a significant proportion of the revenues are derived from a limited number of customers, the Company's strategy is to seek new customers and at the same time secure additional contracts from existing customers by providing high quality products. Historically, the strength of the Company's relationships has resulted in significant recurring revenue from existing customers.

To counter pricing pressures caused by strong competition, the Company has been increasing operational efficiency and continued to take initiatives to improve quality control aside cost reduction / cost control initiatives.

## **2. Fluctuations in Foreign Exchange**

The Company's functional currency is the Indian rupee; however, a major portion of the business is transacted in Yen and other currencies and, accordingly, face foreign currency exposure for export sales and purchases from overseas suppliers in U.S. dollars and other currencies. The Company also supplies High Carbon Ferro Chrome for export to advanced countries through TATA STEEL, meeting stringent international quality norms. Accordingly, the Company is exposed to substantial risk on account of adverse currency movements in global foreign exchange markets. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate in the future also.

The risk on account of foreign currency fluctuations is managed through hedging. The Company's risk management strategy is to identify risks the Company is exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of the 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. The 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.

The Company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in U.S. dollars. The Company has adopted a policy to book forward contracts for about two quarters depending on the exchange rates prevailing in the market. Long term hedging is not generally resorted to as it is considered costly and the Company enjoys natural hedge by way of export of ferro alloys to various other countries. In case of exports, wherever the shipment dates are fixed as per the availability of vessels, hedging is taken up by way of forward contracts. All other exports are on spot basis.

## **3. Political Environment**

The Company has established an overseas outlet in Singapore to add to the inherent strengths of the Company in view of the growing exports and for an easy access to the international markets.

Exports have assumed special importance and become a focus area consistently in the governmental policies. In view of the export performance demonstrated by the Indian industry, exports will continue to be considered for various incentives in the governmental policies.

Any adverse change in the political environment in the countries which are the Company's major markets, would have an impact on growth strategies of the Company.

#### **4. Competition**

The markets for ferro alloys are rapidly evolving and highly competitive, and the Company expects that competition will continue to intensify. The Company faces competition in India and elsewhere from a number of companies.

The Company believes that it is strongly placed to consolidate its market position as a leading Ferro Alloy producer due to its competitive strengths which include:

- Comprehensive range of products backed by captive power
- Specialized industry expertise
- Strong relationships with blue chip customers.
- Track record of high quality products and order execution.

#### **5. Revenue Concentration**

High concentration in any single business segment exposes the company to the risks inherent in that segment. The company has adopted prudent norms based on which it monitors and prevents undesirable concentration in a geography, industry, or client.

#### **6. Inflation and cost structure**

The cost of revenues consists primarily of raw materials including manganese/chrome ore, coal, power, sugarcane etc., The cost of revenues has highest degree of inflationary certainty. To derisk, the Company has established extensive stores to adequately preserve the raw materials and arrangements to procure the same quickly.

The plant in Andhra Pradesh is suited to manufacture of manganese alloys. The plant in Odisha is ideally suited to manufacture of ferro chrome for export in view of its proximity to the country's best chrome ore mines at Sukinda and Paradip Port on the east coast. The Company draws coal from nearby mines operated by M/s. Singareni Collieries Company Limited in Andhra Pradesh and Mahanadi Coalfields Limited in Odisha, to contain the cost of inflation and to economize its operations.

At the organizational level, cost optimization and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with key objective of aligning them to the financial model. The focus on these initiatives has inculcated across the organization the importance of cost reduction and control.

## **7. Technological Obsolescence**

The Company believes that Technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and necessary investments are made to bring in the best of the prevailing technology. The focus areas of recent efforts made to increase efficiency are as follows:

### I. Sugar Division:

Installation of indigenously manufactured fluidized bed sugar drier.

### II. Ferro Alloy Plant (AP):

Utilization of dust collected in Gas Cleaning Plant.

### III. Power Plant (Odisha):

Installation of vector surge relay in generator control circuit to facilitate safe and quick islanding of the unit during grid faults.

### IV. Ferro Alloy Plant (Odisha):

Installation of Metal Recovery Plant with a sophisticated jig.

The Company has initiated various other measures to improve efficiency and technological performance

### I. Ferro Alloy Plant (AP):

Renovation of 2<sup>nd</sup> and 3<sup>rd</sup> Furnaces.

### II. Power Plant (AP.):

Capacity addition of 32 MW with 2<sup>nd</sup> turbine and 3<sup>rd</sup> boiler.

### III. Power Plant (Odisha):

- i. Installation of pumping system for re-cycling and re-use of blow down water.
- ii. Upgradation of DCCS for faster response and improved overall system performance.

### IV. Ferro Alloy Plant (Odisha):

Debottlenecking scheme was implemented which enhanced the capacity to 75000 MT per annum.

### V. Sugar Plant:

The plant and equipment were modernized from time to time and rigorous cane development activities taken up, resulting in better plant performance and higher recovery of sugar.

As a result of constant R & D efforts, the Company developed excellent in-house technical expertise in manufacture of bulk ferro alloys like silico manganese, ferro manganese, ferro chrome and ferro silicon. The Company is constantly on the lookout for higher quality/better products which would increase the productivity and reduce the cost. As part of the Quality initiatives, one of the objectives is to find means of tackling obsolescence and bringing new products.

## 8. Risk of Corporate accounting fraud

Accounting fraud and 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 Whistleblower mechanisms
- Deploying a strategy and process for implementing the new control
- Adhering to internal control practices that prevent collusion and concentration of authority
- Employing mechanisms for multiple authorisation of key transactions with cross checks
- Scrutinising of management information data to pinpoint dissimilarity of comparative figures and ratios

- Creating a favourable 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 organisation and assigning responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

***(Point No.8 incorporated on 10.02.2014)***

## **9. 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 creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

The Company is committed to maintaining high standards of corporate governance and public disclosure and its efforts to comply with evolving laws, regulations and standards in this regard would further help address these issues.

The preparation of financial statements in conformity with Indian GAAP requires the Company 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. The Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks. The Company believes that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.

The Company's revenue recognition policy is significant because revenue is a key component of the results of operations. Very specific and detailed guidelines are followed in measuring revenue.

## **10. Contractual compliance**

Contracts with customers typically contain restrictions/measures and non-adherence of which could result in litigations. Additionally, there will be other obligations and general corporate legal risks.



The Company has an experienced team of professionals, who focus on evaluating the risks involved in a contract, ascertaining the Company's responsibilities under the applicable law of the contract, restricting the Company's liabilities under the contract and covering the risks involved so that they can ensure adherence to all contractual commitments.

The Company has sufficient insurance to cover possible liabilities arising out of non-performance of contracts which would be reviewed on a continuous basis and corrective action taken, as appropriate.

### **11. Compliance with local laws**

The Company is subject to additional risks related to its international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of goods and technologies and multiple and possibly overlapping tax structures. The Company put in place a robust process with the help of consultants in Singapore where the Company has set up a wholly owned subsidiary. To further this, the Company has a policy requiring functional heads to give regular compliance certificates to the Board.

### **12. Quality and Project Management**

The Company established an impeccable record of consistently high product quality and service to customers. The Management is totally committed to quality - right from selection of raw materials to dispatch of finished products.

Critical elements for the success of the Company's global delivery model, are well established quality management systems and sophisticated project management techniques. As an integral part of the processes, the Company has established a strict quality assurance and control program.

The Quality Management System adopted by the Company for manufacture of ferro alloys is accredited with the International Standard ISO 9001:2008. The products enjoy excellent reputation in domestic as well as highly discerning international markets like USA, China, Qatar, Ukraine, Italy, Turkey, Japan, Korea and Indonesia, meeting the requirements of world-class steel manufacturers like Nucor Steel, Nippon Steel, Kawasaki Steel, Posco, Krakatau Steel, etc.

### **13. Environmental Management:**

The Company endeavours to protect the environment in all its activities, as a social responsibility.

Particulate matter escaping through furnace gases at Ferro Alloy Plants is contained to bare minimum by means of Gas Cleaning Plants

Circulating Fluidised Bed Combustion Boilers are chosen for the Power Plants for their very low emissions of NO<sub>x</sub> and SO<sub>x</sub>. The ultra high efficiency Electro Static Precipitators ensure that concentration of particulate matter in the outgoing flue gases is very low.

Extensive plantation of trees around manufacturing plants is undertaken for green belt development to contain pollution.

The Environmental Management System adopted by the Company at all its Plants is accredited with the International Standard ISO 14001:2004.

#### **14. Human Resource Management**

The Company's ability to execute projects and to develop new customers depends largely on its ability to attract, train, motivate and retain highly skilled professionals, particularly project managers, project leaders and other senior technical personnel. The Company believes that there is significant competition for technical personnel who possess the skills needed to perform the job. Inability to hire and retain qualified personnel will impair the strength to run projects and to continue to expand business.

The Company's growth has been driven by its pool of talented human resources and the ability of the Company to effectively engage them. To attract, retain and motivate the Management Team, the Company seeks to provide an environment that rewards entrepreneurial initiative and performance. The Company also provides competitive salaries and benefits as well as incentives in the form of perquisites.

#### **15. Culture and values.**

The Company has two Ferro Alloy plants with a total capacity of 200,000 tonnes per annum and a Sugar Plant with crushing capacity of 4000 tpd, supported by Power Plants.

Managing risk consistently among multi-cultural workforce is very critical.

The company has implemented a written code of conduct and ethics for Directors and Senior Management personnel. These policies are disseminated on the Company's website and affirmations have been obtained from all concerned to ensure compliance.

The Company's core values comprise:

- Pursuit of Excellence
- Customer Orientation
- Industrial Promotion
- Development of Rural Economy
- Export Promotion

- Belief in People
- Workers' Welfare
- Productivity
- Safety
- Good Industrial Relations
- Environment Improvement

The core values are guiding parameters for all organization-wide initiatives.

Further, the Company's website, [www.nbventures.com](http://www.nbventures.com) provides an overview of the organization's direction, design, culture, processes, product range, policies and practices. This site, which is updated periodically, is also accessible to the public.

The Company received several awards from Confederation of Indian Industry, EEPICINDIA. The Federation of Andhra Pradesh Chambers of Commerce & Industry, the Government of Andhra Pradesh and the Government of India, for excellence in

- ❖ Industrial Promotion
- ❖ Development of Rural Economy
- ❖ Export Promotion
- ❖ Workers' Welfare
- ❖ Productivity
- ❖ Safety
- ❖ Industrial Relations
- ❖ Environment Improvement
- ❖ Energy Management
- ❖ Water Management

### **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.

Based on experience gained from the past, 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 risks

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.
- Sufficient stock of raw materials is kept to ensure continuous production.
- Effective steps are being taken to reduce cost of production.

**3) Liquidity Risks:**

- Financial solvency and liquidity risks
- Borrowing limits
- Cash management risks

Risk Mitigation Measures:

- Proper financial planning is put in place
- Annual and Quarterly Budgets and Variance Analyses are prepared to have better financial planning
- Daily, monthly cash flows are prepared
- Cash management services are availed from Bank to avoid any loss of interest on collections
- Exposure to Foreign Exchange transactions are supported by LCs and Bank guarantees and suitable hedging policy.

**4) Credit Risks:**

- Risks in settlement of dues by clients
- Provision for bad and doubtful debts

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of 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.

#### 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.
- The Company tries to reduce the gap between demand and supply.
- Proper inventory control systems have been put in place.

#### 7) **Human Resource Risks:**

- a. Labour 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 to give yearly increment is in place.
- 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.

#### 8) **Disaster Risks:**

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

##### Risk Mitigation Measures:

- The property of the company is insured against natural risks, like fire, flood, earthquakes, etc.
- 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
- Legal risk is the risk in which the Company is exposed to legal action.
- As 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.
- The Company engages 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, to meet the general and specific requirements so that they can ensure adherence to all contractual obligations and commitments.
- Management places and encourages its employees to place full reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance. The suggestions and recommendations from professional agencies and industrial bodies, chambers of commerce etc., are carefully analysed and acted upon wherever relevant.

- The Company has established a compliance management system in the organization and Secretary of the Company ensures the submission of the quarterly compliance reports by functional heads for placing the same before the Board supported by periodical Secretarial Audit Reports by Practicing Company Secretaries.

***(Point No.10 – As amended on 10.02.2014)***

### **Risk Mitigation Measures adopted by the Company**

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

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions.
- The Legal department and the Legal Advisors vet the documents.
- Contracts are finalized as per the advice from legal professionals and Advocates.
- Insurance policies are audited to avoid any dispute subsequently.
- 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.

The Company has a very comprehensive legal compliance policy and manual which serves as an effective tool of preventing risks arising out of violations of various applicable laws.

#### **11) Disclaimer Clause:**

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

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*This Policy was reviewed by the Board of Directors and modified on 10<sup>th</sup> February, 2014 and 30<sup>th</sup> May 2016 in the light of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.*