

RISK MANAGEMENT POLICY

1. OBJECTIVE AND SCOPE

This **Risk Management Policy (“Policy”)** has been established to identify, assess, mitigate, monitor, and report the key risk categories (such as Strategic, Financial, Operational, Regulatory, Reputational, Third-party, Sustainability, Technological Risks) on a periodic basis. It also prescribes the risk management governance structure along with the roles and responsibilities of various stakeholders within the organization.

This Policy has been specifically designed to ensure achievement of the Company’s vision and strategic priorities in line with its core values, integrate risk management in the culture and strategic decision-making in the organization & enable compliance with appropriate regulations and adoption of leading practices.

2. PURPOSE

The purpose of the Risk Management Committee (“**Risk Management Committee**” or “**RMC**”) shall be to assist the board of directors (“**Board**”) in fulfilling its corporate governance oversight responsibilities as required under the Companies Act, 2013 and Regulation 21 of the SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015 as amended issued by the Securities and Exchange Board of India with regard to the identification, evaluation and mitigation of operational, strategic, financial and external risks.

The RMC has the overall responsibility for monitoring and approving the risk charter & policy and associated practices of the Company.

3. REGULATORY REQUIREMENTS

As per the SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015 (“**Listing Regulations**”), top 1000 listed companies are required to define a risk management policy covering the framework for management of key business risks. The board of directors (“**Board**”), the Audit Committee and the Risk Management Committee (“**RMC**”) is responsible to ensure that the Company has a robust risk management framework and monitors its effectiveness on periodic basis.

4. APPLICABILITY

This Policy applies to RACL Geartech Limited (“the Company”) and all units and subsidiaries of RACL Geartech Limited.

5. PHILOSOPHY

The Company has adopted an integrated approach for risk management wherein it ensures that all material risks are identified, analysed, assessed, mitigated and monitored for the long-term sustainability of the organization. In addition, the mitigation plans for all the key risks are aligned with the Company’s strategic business plans and performance management system which are reviewed by the senior leadership on a periodic basis.

The Company's internal audit carries out reviews and the internal control advisory activities aligned to the key risks and their mitigation plans.

The Company also has well defined polices, standard operating procedures and controls in place to minimize and mitigate the financial and operational risks. This provides an independent assurance to the audit committee on the adequacy and effectiveness of the risk management for operational and financial risks. Compliance with the Company's Code of Conduct and Whistle Blower Policy also ensures ethical culture and responsible decision making within the organization.

6. COMPOSITION

RMC is a committee constituted by the Board of the Company. The committee consists of the following:

1. Mr. Gursharan Singh, Chairman & Managing Director of the Company;
2. Mr. Jagdish Keshwani, Independent Director;
3. Mr. Shashank Ramesh Anikhindi, Independent Director;
4. Mr. Prabh Mehar Singh, Vice President- Finance & Business Excellence

7. ROLES AND RESPONSIBILITIES

1. To formulate a detailed risk management policy which shall include:
 - a. A framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
 - b. Measures for risk mitigation including systems and processes for internal control of identified risks.
 - c. Business continuity plan
2. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company.
3. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
4. To periodically review the risk management policy, at least once in two years including by considering the changing industry dynamics and evolving complexity;
5. To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
6. The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.

The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the Board.

8. RISK MANAGEMENT

RACL Geartech Limited recognizes 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 Risks cannot be eliminated. However, it can be managed by one or more of the following means:-

- Avoidance - by not entering into risky businesses;
- Mitigation - by having good internal controls;
- Transfer - to another party, who is willing to take risk, at a viable cost;
- Retention - to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Sharing - by following a middle path between retaining and transferring risk.

RACL Geartech Limited is one of the leading auto component manufacturers, with presence in both domestic and export markets. ISO 9001:2000, ISO 14001:2004 and ISO/TS16949:2009 Certified and the Company has world class Heat treatment, CNC Technology, forging, casting and state of art machining facility.

The product range of the company comprises: Gears, Shafts, Gear Accessories, Gear Cum Shaft, Gear Crank Shaft, Transmission Gear, Main Shaft Gear, Gear Reverse Cluster, Shafts, Axles, Helical Gear, and Drum etc.

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:

- **Business/Commercial Risks** - Budgeting, Capital investment insufficiency, prevention of Fraud, Fund crunch, Business slowdowns etc.
- **Operational/Technological Risks** - Infrastructure/Machinery failure, Power failure, Material supply management failure, technological inadequacy.
- **Economical/Financial/Market** - Exchange rate/Interest rate fluctuation, Inflation, Adverse market conditions.
- **Legal and Regulatory** - Change in legislation enhancing liabilities, compliances, Contingent liabilities, difficulty in obtaining approvals, licenses etc.
- **Organization/Management/Human Factors** - Inadequate policies, Incompetence of Key Managerial Personnel, Occupational health and safety mismanagement and or liability.
- **Information Security Risks** - *user data privacy, data leakage, cyber-attacks etc.*
- **Environmental** - Natural disasters, pollution related issues, transportation problems.
- **Safety/Security** - Accidents, Occupational hazards, Security breach.
- **Political** - Unstable government, unfavourable policies, war, disorder.

8.1 Risk Management Framework

The Company makes responsible approaches towards Risk management on an integrated basis to cover all aspects of operations to diminish each or a combination of known risks that could affect its

business.

RACL Geartech Limited 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.

8.2 Systematic Approach at all levels:

The Company formulates and implements a systematically defined process to assess risk at all levels of the organization, viz., Enterprise level; Division level; Business Unit level. Activities at all levels are considered and Risk Management is planned with focus on three key elements:

- (1) Risk Assessment
- (2) Risk Management
- (3) Risk Monitoring

8.3 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.

8.4 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:

8.5 Risks specific to the Company and the mitigation measures adopted

1) Business Risks: Since the company is a component manufacturing entity, it is dependent on the demand of the Automobile Industry. Variance in the demand and supply of the product in various areas is a major risk.

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) Operational Risks: These risks relate broadly to the company's organization and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organization 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) Financial/Market 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 organization.
- 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.
- Quarterly and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilize cash in an effective manner.

4) Credit Risks:

- Risks in settlement of dues by dealers/customers,
- Bad and doubtful debts,
- Foreign Exchange and Interest Rate Risks,

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts to be made to arrive at correct financial position of the Company and dispose at half yearly intervals;
- Appropriate recovery management and follow up.
- Hedging, forward contracts and Bill Discounting etc. are used.

5) 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.
- To plan for backward integration;
- 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 utilization in customer-plants etc.

- Proper inventory control systems have been put in place.

6) Legal Risks:

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

Risk Mitigation Measures:

- *A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.*
- *The Authorized persons vets legal and contractual documents with legal advice, if required, 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.*

7) Human Resource Risks:

- *Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.*
- *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.*
- *Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.*
- *Employees are encouraged to make suggestions and discuss any problems with their Superiors.*

8) Environmental Risks:

- *Natural risks like Fire, Floods, Earthquakes, etc.*
- *Pollution hazards like waste disposal, affluent emission, noise levels*

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.*
- *Complying with all applicable legal requirements.*
- *Using environmental friendly technology, processes and products and methods.*

9) Safety/Security Risks:

- *Accidents at workplace,*
- *Occupational hazards,*
- *Internal & external security risks,*
- *Theft, break-in, fraud, sabotage, violence,*

Risk Mitigation Measures:

- *The Company has safety rules and regulations in place.*
- *Workers & employees are given safety training.*
- *Company has adopted the policy for safety of workers & employees.*
- *Proper enforcement of safety Policy.*
- *Security personnel are trained.*
- *Insisting of safe work procedures being followed by employees and visitors.*

10) Information System Risks:

- *System capability,*
- *System reliability,*
- *Data integrity risks,*
- *Coordinating and interfacing risks,*
- *User Data privacy,*
- *Data Leakage,*
- *Cyber-attacks*

Risk Mitigation Measures:

- *IT 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.*

11) Energy related Risks – *the Company has increased the use of energy through non-conventional energy sources such as solar power and rain water harvesting.*

9. POLICY REVIEW

Risks are ever changing in this volatile business environment and hence there is a need to periodically revisit the approach towards risk management. Therefore, this Policy shall be reviewed once in two years. Any revision to the Policy shall be incorporated with the approval of the Risk Management Committee and the Board of Directors.

10. MEETINGS OF RMC

At least twice in a year and as and when required. The gap between two consecutive RMC meetings shall not exceed 180 days.

11. INVITEES TO THE MEETING

The Internal Auditors & Chief Financial Officer shall be invitee to the Committee meetings.

The Company Secretary of the Company shall conduct the Committee meetings.

In addition, the Committee may from time to time, draw upon relevant resources within the Company, as well as external experts, who may also be invited to participate in parts of a meeting.

12. QUORUM

Quorum of the Committee shall be a minimum of three members, out of which 2 members should be representative of Management.

13. AMENDMENT

Any change in this Policy shall be proposed by the Committee and approved by the Board of Director. Further any subsequent amendments to the Listing Regulations shall apply to this Policy.