

JMT AUTO LIMITED

RISK MANAGEMENT POLICY

Risk Management Policy/ Initial Version/ Implemented - 1st October, 2014

JMT AUTO – RISK MANAGEMENT POLICY

Introduction

Like every business JMT AUTO LTD faces numerous risks. These risks have the potential to disrupt achievement of the Company’s strategic and operational objectives. JMT AUTO aims to use risk management to take better informed decisions and improve the probability of achieving its strategic and operational objectives.

What is Risk?

Risk exists as a consequence of uncertainty and is present in all activities whatever the size or complexity and whatever industry or business sector. It is important to understand that risk is a broader concept than the traditional view of merely a threat. It also recognizes the risks of taking or not taking opportunities.

What is Risk Management?

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.

STATUTORY REQUIREMENT

Paragraph (C) of sub-clause IV of 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. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework”

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.

(II) (C) 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.*

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.

Purpose of this policy

This policy is a formal acknowledgement of the commitment of JMT AUTO to risk management. The aim of the policy is not to have risk eliminated completely from Company activities, but rather to ensure that every effort is made by the Company to manage risk appropriately, to maximize potential opportunities and minimize the adverse effects of risk.

Policy Objectives

Risk is an inherent aspect of all commercial business activities. Sound risk management principles must become part of routine management activity. Objectives of the Policy are:-

- to ensure that JMT AUTO has a consistent basis for measuring, controlling, monitoring and reporting risk across the Company at all levels.
- To confirm and communicate JMT AUTO's commitment to risk management to assist in achieving its strategic and operational goals and objectives.
- To formalize and communicate a consistent approach to managing risk for all activities and to establish a reporting protocol.

- To ensure that all significant risks to the Company are identified, assessed and where necessary treated and reported to the Audit Committee in a timely manner through the Risk Management Team.
- To assign accountability to all staff for the management of risks within their areas of control.

JMT AUTO's RISK MANAGEMENT

JMT AUTO 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

JMT AUTO Limited is one of the leading component manufacturers (Auto, Oil & Gas, Earth Moving, Hydraulics, Agriculture, Railways & Aerospace), with presence in both domestic and export markets.

ISO 9000 & AS 9100 Certified and a Star Export House 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 Box, Gear Accessories, Gear Cum Shaft, Gear Crank Shaft , Transmission Gear, Main Shaft Gear, Gear Reverse Cluster, Gear Constant Mesh, Shafts, Shot Pinion Ring Gear, Cam Shaft Gear, Axles, RA Shaft, Shifter ,

Assy Coupling Flange, Helical Gear, Excavator Parts, Hydraulic Pipes, Body, Spindle, Carrier, Bearing, Drum, Gear Casing, Gear Ring, Housing , Pin Assembly, Planet Wheel, Axel/ Assy Pin, Body Centre Joint, FIP, Gear ACC Drive ,Assy Rocker Lever, Shaft, Super Finish Shaft, Assy Flywheel, Inserts, Seat valve, Retainer Guide Bush, Pin, Cups, Cone, Seal Wearing, Fly Wheel 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, 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, licences etc.
- **Organisation/Management/Human Factors** – Inadequate policies, Incompetence of Key Managerial Personnel, Occupational health and safety mismanagement and or liability
- **Environmental** – Natural disasters, pollution related issues, transportation problems
- **Safety/Security** – Accidents, Occupational hazards, Security breach
- **Political** – Unstable government, unfavourable policies, war, disorder

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.

JMT AUTO 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.

The Company has constituted a Risk Assessment and Minimization Committee with the following heads (Operations, Business development, Quality, Finance, Administration, HR and Legal) as members.

The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organization.

Systematic Approach at all levels:

The Committee 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

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:

Risks specific to the Company and the mitigation measures adopted

1) Business Risks: Since the company is a component manufacturing entity, it is dependant 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) 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) 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 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
- 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 made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.
- Hedging, forward contracts and Bill Discounting etc is 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.
- 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.

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 Company Secretary & Legal Head vets all 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 5S policy
- Proper enforcement of Security Policy
- Security personnel are trained
- Insisting of safe work procedures being followed by employees and visitors

10) System Risks:

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

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.
- The Company has adopted the IT policy of its Holding Company.

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 management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

.....