NAVKETAN MERCHANTS LIMITED

PREFACE

Navketan Merchants Limited (the Company) is engaged in the trading of yarn and sarees and also investment activities. The business activities of the Company carry various internal and external risks.

DEFINITIONS

'Risk' in literal terms can be defined as the effect of uncertainty on the objectives.

Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organisation continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

'Risk Assessment' is the systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks

'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 realisation of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

'Risk Management Process' involves the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

Effective risk management requires:

(a) A strategic focus,
(b) Forward thinking and active approaches to management
(c) Balance between the cost of managing risk and the anticipated benefits, and
(d) Contingency planning in the event that critical threats are realised.

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 risk, Technology obsolescence, return on investments, business cycle, increase in price and costs, limited resources, retention of talent, etc.

LEGAL FRAMEWORK

Risk Management is a key aspect of Corporate Governance Principles and Code of Conduct which aims to improvise the governance practices across the business activities of any organisation. The new Companies Act, 2013 and the revised Clause 49 of the Equity Listing Agreement have also incorporated various provisions in relation to Risk Management policy, procedure and practices.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.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a **"Risk Management Policy"** (the Policy) of the Company

PURPOSE AND SCOPE OF THE POLICY

The main objective of the Policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the Company's business. In order to achieve the key objective, this Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

The specific objectives of this Policy are:

- ✓ 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 enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- ✓ To assure business growth with financial stability.

APPLICABILITY

The Policy applies to all areas of the Company's operations.

RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED

i. **Business dynamics:** Variance in the demand and supply of the product. 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.

ii. **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,
- 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;
- Proper policies are followed in relation to maintenance of inventories;
- Effective steps are being taken to cut or reduce cost where ever possible.

iii. **Credit Risks:** These risks involves risks in settlement of dues by dealers/customers and 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.

iv. **Market Risks / Industry Risks:** These risk includes the following

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time, interest rate risks
- Rates of goods
- Interruption in the supply of sarees

Risk Mitigation Measures:

- Stocks are procured from different sources at competitive prices.
- Alternative sources are developed for uninterrupted supply of sarees.
- Demand and supply are external factors on which company has no control, but however the Company plans its purchase 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 product.
- The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile.
- Proper inventory control systems have been put in place.

v. **Legal Risks:** These risks relate to 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, the Company is exposed to legal risk.

Risk Mitigation Measures:

The Compliance team looks after the compliances of the applicable laws vigilantly.

vi. **Other External Risk Factors**

- Change in Government Policies

- Increase in taxes on yarn and sarees
- Competition
- Change in Fashion or Customer preferences
- Change in Stock Market regulations
- Economic Environment and Market conditions
- Change in Political Environment
- Culture and values

RESPONSIBILITY FOR RISK MANAGEMENT

The Risk Management Committee together with members of Senior Management have undertaken the ownership and are working on mitigating the same through co-ordination among various departments, insurance coverage, and security policy. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

AMENDMENT

This Policy can be modified at any time by the Board of Directors of the Company.