

RISK MANAGEMENT POLICY

1. PREFACE

Servotech Power Systems Limited (“the Company”) is engaged in the manufacture and marketing of a range of LED Light and Solar products in India and a few other countries. The business activities of the Company carry various internal and external risks.

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

Effective risk management requires:

- A strategic focus,
- Forward thinking and active approaches to management
- Balance between the cost of managing risk and the anticipated benefits, and
- Contingency planning in the event that critical threats are realized.

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.

2. KEY DEFINITIONS

“Risk Assessment”: The systematic process of identifying and analyzing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks

“Risk Management”: The systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

“Risk Management Process”: The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risk.

3. 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 organization. The new Companies Act, 2013 and the Regulation 21 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 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**" (this Policy) of the Company

4. PURPOSE AND SCOPE OF THE POLICY

The main objective of this 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.

5. APPLICABILITY

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

6. RISK FACTORS

The objectives of the Company are subject to both external and internal risks that are enumerated below:-

7. External Risk Factors

Broad external risks are summarized hereunder:

- i. Economic Environment and Market conditions
- ii. Political Environment
- iii. Competition
- iv. Revenue Concentration and liquidity aspects: Each business area of products such as pumps, turbines, motors, generators, switchgears and turnkey projects has specific aspects on profitability and liquidity. The risks are therefore associated on each business segment contributing to total revenue, profitability and liquidity. Since the projects have inherent longer time-frame and milestone payment requirements, they carry higher risks for profitability and liquidity.
- v. Inflation and Cost structure-
Inflation is inherent in any business and thereby there is a tendency of costs going higher. Further, the project business, due to its inherent longer time- frame, as much higher risks for inflation and resultant increase in costs.
- vi. Technology 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.
- vii. Legal –
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, the Company is exposed to legal risk.
- viii. Fluctuations in Foreign Exchange-
The Company has limited currency exposure in case of sales, purchases and other expenses. It has natural hedge to some extent. However, beyond the natural hedge, the risk can be measured through the net open position i.e. the difference between unhedged outstanding receipt and payments. The risk can be controlled by a mechanism of “Stop Loss” which means the Company goes for hedging (forward booking) on open position when actual exchange rate reaches a particular level as compared to transacted rate.

8. Internal Risk Factors

Broad external risks are summarized hereunder:

- i. Project Execution
- ii. Contractual Compliance
- iii. Operational Efficiency
- iv. Hurdles in optimum use of resources
- v. Quality Assurance
- vi. Environmental Management

- vii. Human Resource Management
- viii. Culture and values

9. RESPONSIBILITY FOR RISK MANAGEMENT

Generally every staff member of the Organization is responsible for the effective management of risk including the identification of potential risks. 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.

10. COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management’s processes and results in identifying, assessing and monitoring risk associated with Organization’s business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

11. REVIEW

This Policy shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.

12. AMENDMENT

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