



HEC INFRA PROJECTS LIMITED

RISK MANAGEMENT POLICY

Regd. Office:

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1. **BACKGROUND:**

HEC Infra Projects Limited (“the Company”) is engaged in an EPC Contractor in the field of Electro Mechanical Projects. 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. **LEGAL FRAMEWORK:**

The Company being a listed Company is required to adhere to both by the Companies Act, 2013 and SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015.

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.

The provisions of Section 149(8) describe that as per Schedule IV of the Companies Act, 2013 the independent director shall perform following roles and functions:

- help in bringing an independent judgement to bear on the Board's deliberations especially on issue of strategy, performance, risk management, resources, key appointments and standards of conduct;
- Satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities. 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.

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.

3. DEFINATION:

"Audit Committee or Committee" means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing Agreement.

"Board of Directors" or "Board" in relation to a Company, means the collective body of Directors of the Company (pursuant to Section 2(10) of the Companies Act, 2013).

"Policy" means Risk Management Policy.

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.
- Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats.
- To establish a framework for the company's risk management process and to ensure its implementation.

- Contributing towards more efficient use/ allocation of the resources within the organization.
- Protecting and enhancing assets and company image.
- To assure business growth with financial stability.
- Reducing volatility in various areas of the business.

5. APPLICABILITY

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

6. KEY DEFINITIONS

▪ **Risk Assessment –**

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 –**

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.

7. RISK FACTORS:

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

- **External Risk Factors**
 - **Economic Environment and Market conditions**
 - **Political Environment**
 - **Competition**
 - **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.

➤ **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 timeframe, as much higher risks for inflation and resultant increase in costs.

➤ **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.

➤ **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.

➤ **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 un-hedged 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.

• **Internal Risk Factors:**

- Project Execution
- Contractual Compliance
- Operational Efficiency
- Hurdles in optimum use of resources
- Quality Assurance
- Environmental Management
- Human Resource Management
- Culture and values

8. **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.

9. 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.

10. DISCLOSURE IN BOARD'S REPORT:

Board of Directors shall include 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.

11. AMENDMENT:

This Policy can be modified by Audit Committee and/or the Board from time to time as may be necessary.
