

The Andhra Petrochemicals Limited
Venkatarayapuram

RISK MANAGEMENT POLICY

Earlier, pursuant to the erstwhile Clause 49 of the Listing Agreement, Board of Directors of the Company approved the “Policy on Corporate Risk Management” at its Meeting held on 27th March, 2015.

Now, the Securities and Exchange Board of India (SEBI) vide its Notification No. SEBI/LAD-NRO/GN2021/22 dated 5th May, 2021 has amended Regulation 21 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”). In order to comply with the requirements of the amended Regulation, this new “**Risk Management Policy**” (“RM Policy” or “the Policy”) of **The Andhra Petrochemicals Limited** (“the Company”) has been framed in place of the previous “Policy on Corporate Risk Management”.

RISK:

“Risk” means effect of any uncertain future situation or event which could influence achievement of Company’s business objectives or realization of opportunities. Risk always results in as a consequence of activities or non-activities. Risk is an integral and unavoidable component of any business and it is constant in one way or the other.

In today’s challenging and competitive environment, risks are unavoidable and cannot be eliminated altogether and as such strategies for mitigating inherent risks proactively in accomplishing the growth plans of the Company are imperative.

The common risks, *inter alia*, are changes in law, Rules and Regulations. Competition, business risks, technology obsolescence, investments, retention of talent and expansion of facilities. Business risks further include financial risk, political risk, fidelity risk etc.

RISK MANAGEMENT:

“Risk Management” means 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 COMMITTEE:

As required by the provisions of Regulation 21 of the SEBI Listing Regulations, Board of Directors of the Company at its meeting held on 24th June, 2021 has constituted Risk Management Committee comprising Sri P Narendranath Chowdary, Managing Director, Sri Mullapudi Thimmaraja and Sri Ravi Pendyala, Directors, and Dr. V N Rao, Independent Director, as its Members.

OBJECTIVE:

The objective is to create and protect stakeholder value by minimizing threats or losses, and identifying and maximizing opportunities.

APPLICABILITY:

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

This Policy seeks to identify risks inherent in the Operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks in a proactive and effective manner.

This Policy shall complement the other Policies of the Company in place, e.g., Related Party Transactions Policy, Whistle Blower Policy, Prevention of Sexual Harassment Policy, to ensure that the risks, if any, arising are effectively mitigated.

LEGAL FRAMEWORK:

As per the provisions of Regulation 17 (9) of the SEBI Listing Regulations, the Company shall lay down procedures to inform its Board of Directors about risk assessment and minimization procedures and the Board shall be responsible for framing, implementing and monitoring the Risk Management Plan.

As per the provisions of Section 177(4)(vii) of the Companies Act, 2013, one of the terms of reference for Audit Committee is to evaluate Risk Management Systems.

As per the provisions of Section 134 (3)(n) of the Companies Act, 2013, the Report of Board of Directors to be laid before shareholders in a general meeting shall include a Statement indicating development and implementation of a Risk Management Policy for the Company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

As per Schedule IV of the Companies Act, 2013, one of the functions of Independent Directors is to help in bringing an independent judgment to bear on the Board's deliberations especially on issue of Risk Management and satisfy themselves that the Systems of Risk Management are robust and defensible.

RESPONSIBILITY FOR RISK MANAGEMENT:

- Generally every staff member of the Company is responsible for the effective management of risk including 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.

PROCESS AND PROCEDURE:

The Risk Management Process consists of the following main elements:

Identify	:	Identify a risk and document the risks captured by the risk register owner.
Assess	:	The primary goal is to document the net effect of all identified risks, by assessing: <ul style="list-style-type: none"> • Likelihood of risks • Impact of each risk • Proximity of risk and • Prioritisation based on scales
Plan	:	Preparation of Management responses to mitigate the risk.
Implement	:	Risk responses are actioned.
Monitor and review	:	Monitor and review the performance of the Risk Management System and changes to business activities.
Communicate	:	Provide regular Reports to Risk Management Committee / Audit Committee / Board at regular intervals.

RISK MITIGATION:

Management recognizes the Risk as an integral part of the business. In this context Risk Assessment Process has been evolved which mainly deals with:

Identification of the activities exposed to the Risk, Nature of Risk, Risk Analysis and Management to mitigate the effect of Risk on business operations covering the following aspects:

Sl. No.	Risk	Impact	Probability	Mitigation
(i)	Fire – Plant & Machinery and Current Assets	High	Probable	Insure & strengthen Internal Control
(ii)	Loss in Transit – Incoming and Outgoing Materials	Moderate	Almost Certain	Insure
(iii)	Machinery Breakdown	Moderate	Somewhat	Insure & Internal Control, viz., proper planning of periodical & preventive maintenance by entering into maintenance contracts
(iv)	Theft of Cash	Low	Somewhat	Insure & Strengthen Internal Controls and Security checks
(v)	Theft of Assets	Low	Somewhat	Insure, Internal Control, proper Gate Pass checks & Security Cameras
(vi)	Fraud	Low	Somewhat	Strengthen Internal Controls & Internal Audit
(vii)	Product liability claims	Low	Almost certain	Internal Control, Quality Control & Absorb, if any
(viii)	Debtor default	Low	Probable	Strengthen the collections from the Debtors & Absorb, if any
(ix)	Accidents to employees	Low	Probable	Provide Safety Equipment and train employees from time to time on safety to avoid / prevent accidents & Control
(x)	Fluctuations of Raw Materials and Finished Goods	High	Almost certain	Strengthen Purchase Department & Internal Control
(xi)	Electronic Data failure	Low	Probable	Strengthen Internal Controls & EDP Department

(xii)	Currency Fluctuations	High	Certain	Hedging & Absorb
(xiii)	Competition from the existing and new manufacturers	High	Certain	Control avoidable expenditure to stay in competition
(xiv)	Imports competition	High	Certain	Control avoidable expenditure to stay in competition arising from imports

REVIEW:

The Risk Management Committee shall consider the various Risk Factors identified **(Annexure – A)**, review and monitor the various Risks identified **(Annexure – B)** concerning the Company and its mitigation plan and perform such other functions as required under the Listing Regulations or other applicable laws, as amended from time to time.

RESPONSIBILITY:

The Risk Management Committee has responsibility to review and report to the Board that:

1. The Committee has, at least once in two years, reviewed the Risk Management Policy / Framework to satisfy itself that all potential risks are identified;
2. Risk Management Plan / Processes have been designed properly and implemented effectively to manage the identified risks;
3. Such Risk Management Plan / Processes are reviewed and monitored regularly;
4. Proper remedial action is undertaken to redress areas of potential risk.

AMENDMENT IN LAW:

Any subsequent amendment / modification in the Listing Regulations / the Companies Act in this regard shall automatically apply to this Policy. The same shall be added / amended / modified from time to time by the Board of Directors of the Company with due procedure.

This Policy, which has been approved by the Board of Directors at its Meeting held on 5th August, 2021.

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Annexure - A

RISK FACTORS:

1. 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

2. External Risk Factors

- Economic Environment and Market conditions
- Political Environment
- Competition
- Revenue Concentration and Liquidity aspects
- Inflation and Cost Structure
- Technology Obsolescence
- Legal
- Fluctuations in Foreign Exchange
- Intellectual Property Rights
- Weather, natural disasters, accidents

Annexure - B

LIST OF RISKS

1. PLANT

- (a) Availability of Power
- (b) Propylene – Storage and Handling
- (c) Major source (HPCL) of Propylene Supply
- (d) Oxo-Alcohols, viz., 2 Ethyl Hexanol, Normal Butanol and Iso Butanol
- (e) Vacancies of technical / skilled manpower
- (f) Availability of critical spare parts
- (g) Pollution
- (h) Contamination of Finished Goods (within factory), if any
- (i) Statutory compliances related to Plant
- (j) Plant obsolete (wear and tear)

2. MARKETING

- (a) Demand forecast
- (b) Volatility in pricing of Products
- (c) Dealers
- (d) Export and Import of some goods and materials
- (d) Logistics
- (e) Credit Risks (receivables)
- (f) Compliances related to sale and marketing of products
- (g) Statutory compliances
- (h) Contamination of Finished Goods (ex-factory), if any
- (i) Marketing expenditure
- (j) Delivery Schedules
- (k) Competition Risk

3. PROJECT

- (a) Cost (inflation, exchange fluctuation, delay)
- (b) Time
- (c) Deliverables (outdated technology, failure to produce required output, environment and other market factors)

4. PURCHASE

- (a) Limited vendors for certain raw materials
- (b) Limited vendor base
- (c) Inventory Management
- (d) Procurement of quality raw material at budgeted price and on timely manner
- (e) Import
- (f) Storage space limitation
- (g) Availability of Propylene

5. FINANCE

- (a) Fixed Cost
- (b) Exchange risk on foreign currency borrowings
- (c) Commodity Risk and Hedging Activities
- (d) Loss of revenue due to marketing risk
- (e) Costly procurement
- (f) Liquidity risk (receivables)
- (g) Increased cost of borrowings
- (h) High level of inventory (blockage of working capital)
- (i) Regulatory risks relating to tax, audit and governance compliances and changes in Government Policies relating thereto
- (j) Unbalanced borrowing programmes for funding future projects
- (k) Fraud
- (l) Treasury operations
- (m) Volatile insurance cost

6. HUMAN RESOURCES

- (a) Litigation risks related to manpower, contract labour etc.,
- (b) Strikes, Lockouts
- (c) Statutory Compliances
- (d) Change in Government Policies on labour reforms
- (e) Succession Planning
- (f) Management Bandwidth
- (g) Over / under sizing of manpower
- (h) Deployment of project affected people

7. INFORMATION TECHNOLOGY

- (a) SAP System Adaptation and its availability
- (b) Cyber Security Risks;
- (c) Anti-spamming
- (d) Anti-virus
- (e) Intrusion Detection and Prevention
- (f) Anti E-mail Spamming

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