



THE FERTILISERS AND CHEMICALS TRAVANCORE LIMITED

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RISK MANAGEMENT POLICY

1. INTRODUCTION

This Policy shall be called “RISK MANAGEMENT POLICY” (hereinafter referred to as “the Policy”) of The Fertilisers And Chemicals Travancore Limited (hereinafter referred to as “FACT”).

The Policy has been framed in compliance with the Schedule II of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as “Listing Regulations”) as amended on 05th May 2021.

2. OBJECTIVE

The objective of the Risk Management Policy is to identify and evaluate future as well as existing risks in various business areas of the company, so that suitable management actions can be taken in time for maximizing the stake holders’ value. The Risk Management Policy aims to encourage an appropriate level of risk tolerance throughout the Company and establish procedures to analyse risks within agreed parameters across the Company. Considering the significance of risk management in the scheme of corporate management strategies, its oversight is one of the main responsibilities of the Management.

3. SCOPE OF THE POLICY

The policy guidelines are devised in context of the organization’s growth objectives, its business and strategy plan, global Enterprise Risk Management (ERM) standards and leading Enterprise Risk Management practices. The Policy shall cover all divisions of the Company

4. FRAMEWORK FOR RISK MANAGEMENT POLICY

The Risk Management Policy of the Company shall comprise of a framework for assessment of risks arising out of operations as well as external environment, risk control & reporting of the same.

i. Assessment

Assessment of each risk shall be carried out as a continuous process and perceptions of new risks would be updated. Identified risks will be assessed in terms of potential consequences and cost of impact on asset, facilities, third parties etc. Risks will be ranked in accordance with their likely impact. The acceptability of each identified risk will be assessed. Responsibilities for management of each risk will be assigned to appropriate managers. Based on a cost / benefit assessment of risk, some risks may be judged as having to be accepted because, it is believed, mitigation is not possible or warranted.

ii. Risk Control

In order to mitigate losses arising out of perceived risks, the procedures being presently adopted to contain the risks, as also the practices adopted during emergencies, including the communication system and mode of disseminating information to the Authorities, Press etc. would be reviewed from time to time.

iii. Reporting

Risk Management is a continuous process applicable to all functions. Risk Management Committee would review identified risk and mitigation action taken on twice in a year.

5. APPROACHES TO RISK MANAGEMENT POLICY:

Company evaluates its business opportunities on parameters of viability, sustainability and profitability in the medium and long term in order to minimize probability of adverse impact of any unforeseen risk.

Careful analysis of the business environment, Corporate Plan and business practices followed by the Company, the foreseeable potential risks in the present context and inbuilt risk mitigation mechanism practiced by the Company form the basis in structuring the Risk Management Policy.

The Risk Management Policy of the company has been formulated to put in place a framework for assessment, risk control and reporting which are as under:

1. Identification of potential risks
2. Categorization of risks on the basis of their impact
3. Indicators for risks
4. Framing strategies for mitigation of identified risks
5. Monitoring and systematic reporting to the Board / Committee of Directors

6. Periodic review of the Risk Matrix/Risk Management Plan
7. Communication of the Risk Management Policy across the company.
8. Communication to the Stakeholders / Authorities.

5.1 Identification of Potential Risks

Potential business risks of FACT have been identified and grouped primarily into 7 sub categories as under:

I. Operational Risks

a) Raw Materials Risks

Different type of raw materials / feedstock for risk assessment are Re-gasified Liquefied Natural Gas (RLNG), Rock Phosphate, Phosphoric Acid, Sulphur, Sulphuric Acid and Benzene etc. The risks can be associated to

1. Shortage / non availability of material
2. Volatility in price
3. Transportation
4. Quality of material

b) Utilities Risks

1. Water Supply
2. Power shortage

c) Stores & Spares Risks

1. Shortage of Bags
2. Shortage of Stores & Spares

d) Plant Risks

1. Breakdown of plants & machinery
 - i) Major Breakdown (More than 72 Hrs.)
 - ii) Minor Breakdown (Cumulatively less than 72 Hrs.)
2. Obsolescence of instruments, technology etc.
3. Labor unrest / Non-compliance of labor laws.
4. Explosions & Accidents
5. Loss of Assets

6. Handling & Storage of hazardous material
7. Quality Risks
8. Bagging Risk with regard to Weight variance in Factamfos / Ammonium Sulphate Bags, Bags quality and Product quality
9. Transportation Risks
10. International Price Risks
11. Risk related to closure of certain plants / systems / equipment.
12. Risk related to restart of closed plants.
13. Identification of critical / Accident Prone / Explosive Prone areas
14. Risk related to Public Liability
15. Safe operation of plants
16. Pollution control statutes

e) Project Related Risks

1. Suppliers'/Agencies unable to meet the schedule
2. Technological changes
3. Non-observance of Procedure / Guidelines for implementation of project
4. Improper documentation of Project related activities
5. External factors affecting project viability

II. Human Resource Risks

1. Attrition of experienced manpower
2. Non availability of good manpower
3. Strike by existing contract labor / ex-contract labor / regular employees

III. Financial Risks

a) Policy / Price Change Risks

1. Price Regulations / subsidy policies / change in Govt. policies pertaining to Fertilizers.
2. Credit risks
3. Foreign Exchange fluctuations affecting short term Exposure (import transactions)

b) Subsidy / Budget Risks

1. Subsidy Risk arising due to Budget limitation / delay in generation of bills
2. Risk related to delay in release of subsidy
3. Debt Financing / Funding Risk
4. Short Term Debt Financing
5. Frauds, Thefts, embezzlement

IV. Marketing Risks

1. Government Policy Changes
2. International availability / Price of Fertilizers
3. Quality issues on Product, Bag, Skilled stitching, handling
4. Legal Metrology statutes
5. Commercial: Credit fulfillments
6. Brand infringement, Spurious products, Trademark Infringement/unauthorized use of logo etc.

V. Regulatory Risks

a) Environment Risks

Change in Environmental criterion and emission standards

b) Legal / Policy Risks

Change in Govt. Policies /legal frame work / statutory levies / regulations

c) Liability Risks

Contractual Liability

d) Statutory Compliance Risks

Non-compliance with legal / regulatory / tax / other / statutory compliance

e) Internal Control Risks

Control, Fraud and Compliance Risks

VI. IT Risks

1. Failure of hardware
2. Failure of Business Applications & security of electronic data
3. Cyber Risks such as Hacking, sabotage etc.
4. Communication network

VII Other Risks

1. Natural calamities
2. Terrorist Attack

5.2 Categorization of risks on the basis of their impact

FACT has framed a Risk Matrix/Risk Management Plan, which is an integral part of this Policy. The Risk Matrix/Risk Management Plan indicates the impact of various risks on the operations, revenue, profitability and sustainability of the business and the likelihood of its occurrence.

For each identified potential business risk, Triggers / Indicators have been identified that would raise an alarm about the criticality of risk.

Impact of an event has been categorized under four classes; viz. Severe / High / Medium / Low and its likelihood have been categorized under three classes, viz. High / Medium / Low.

The criteria for the above impacts would be as under:

Class	Financial Impact (Rs in crores)
Severe	$\geq$ Rs 50 Cr or more
High	$\geq$ Rs 25 Cr < Rs 50 Cr
Medium	$\geq$ Rs 5 Cr < Rs 25 Cr
Low	Less than Rs 5 Cr

5.3 Indicators for risks

The identified and assessed risks are essentially potential risk and would not happen (in most of the cases) spontaneously and without a warning.

A potential risk, before it is actually occurs would create identifiable signals or indicators. When such signals are properly and promptly noticed and the reasons

analyzed, proper remedial actions could be taken to avoid occurrence of the risk event.

In the Risk Matrix/Risk Management Plan, triggers that would lead to the events of risk are indicated. Strategy needed to mitigate the risks would have to be appropriately applied based on the same.

5.4 Framing strategies for mitigation of identified risks

The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

- a) Risk Avoidance: By not performing an activity that could carry risk. Avoidance may appear to be the answer for all the risks, but avoiding risks may also result in losing out on the potential gain that accepting (retaining) the risk may have allowed.
- b) Risk Transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging or through Insurance.
- c) Risk Reduction: Employing methods / solutions that reduce the severity of the loss.
- d) Risk Retention: Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater than the total losses likely to be sustained. All risks that are not avoided or transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would not be feasible.

5.5 Monitoring and systematic reporting to the Board / Committee of Directors

The Company has a Risk Management Committee ("Committee"), which was constituted with the overall responsibility of overseeing and reviewing risk management across the Company.

The Board of Directors ("the Board") is responsible for reviewing and ratifying the risk management structure, processes and guidelines which are developed and maintained by the Committee and Senior Management. The Committee or Sr. Management may also refer issues to the Board for final consideration and direction.

Senior Management should regularly monitor and evaluate the effectiveness of the action plans and the performance of employees in implementing the action plans, as appropriate. In addition, Senior Management should promote and monitor the culture of risk management within the company and compliance with the internal risk control systems and processes by employees. Senior Management should report regularly to

the Board/ Committee regarding the status and effectiveness of the risk management program.

The roles and responsibilities of the Risk Management Committee are as follows:

1. Assist the board in fulfilling its corporate governance in overseeing the responsibilities with regard to the identification, evaluation and mitigation of operational, strategic and external environment risks.
2. Monitor, approve and review the risk policies/ plans including Business Continuity Plan and associated practices of the company. "The Business Continuity Plan" shall ensure uninterrupted production, safe working conditions, and adequate manpower, while also encompassing all identified risks, including but not limited to operational, financial, human resources, regulatory, cybersecurity and supply chain disruptions.
3. Review and approve risk disclosure statements in any public documents or disclosures.
4. Carry out any other function as required by the provisions of the Companies Act, 2013, listing agreement including SEBI (LODR) Regulations, 2015 and Corporate Governance Guidelines issued by DPE.
5. Ensure that appropriate systems are in place to manage the identified risks, so that the organizations assets and reputation are suitably protected.
6. Ensure that responsibility and authorities are clearly defined and adequate resources are assigned to implement the Risk Management Policy.

5.6 Periodic review of the Risk Matrix/Risk Management Plan

All concerned departments involved in the assessment and mitigation of risks shall periodically prepare and report the information in Annexure A-1 (Severe / High Impact and Severe / High Likelihood risks) & Annexure A-2 (Other Risks) of this Policy.

The Chief Risk Officer shall coordinate all activities related to Risk Management, including implementation of Risk Management Policy. The Risk Officer shall arrange review of Quarterly Risk reports and submit the same to Risk Management Committee.

The modalities of the Risk Management System shall be as under: -

1. All Units/Division/Marketing related information shall be prepared and submitted in the desired Formats (Annexure A-1 & A-2) through Unit Heads/Zonal Managers to respective Functional Heads within a week after closure of the quarter.
2. The Quarterly Report received from Units / Zonal offices shall be reviewed and consolidated by each Functional Head.
3. Thereafter, the consolidated report shall be forwarded by concerned Functional Heads to the Chief Risk Officer, positively within a fortnight after closure of each quarter.
4. The Chief Risk Officer, shall on quarterly basis put up the consolidated quarterly report of the Company on risk management to Risk Management Committee.

All the Heads of the Departments apart from their normal responsibilities, would also deal with identifying risks and steps to be taken for mitigation. In other words, duties are not exclusive to Risk Management Control as every employee is expected to be constantly evaluating and taking steps to avoid and mitigate risks

Responsibility for implementing Risk Management Policy

The Chief Risk Officer would be the coordinating officer to implement Risk Management Policy, arrange review of Quarterly Risk reports in Annexure A-1 & A-2 and submit the quarterly report to Risk Management Committee.

5.7 Communication of the Risk Management Policy across the company.

For the effective implementation of the risk management policy, communication and training across the company is required & the Risk Management Policy shall be displayed on website. Further, any significant change in the policy shall be communicated to the employees across the layers to make them aware of:-

1. The risks faced by the company
2. Their impact on the business, if it happens
3. Mitigation measures to prevent happening and reduce the impact
4. What to do if it happened

6. Disclosure in the Annual Report

In the Annual Report of the Company, a Chapter on the risks faced by the Company and measures taken for minimization of the same shall be incorporated as part of Report on Corporate Governance.

7. Review and Amendments

This policy will be subjected to review by the Risk Management Committee of the Board. Any change in the Policy shall be approved by the Board on the recommendation of the Committee. The Board of Directors or the Committee shall have the right to withdraw and/or amend any part of this Policy or the entire Policy, at any time, as it deems fit, or from time to time, and the decision of the Board of Directors in this respect shall be final and binding. Any subsequent amendment/modification in the Companies Act, 2013 or the Rules framed thereunder or the Listing Regulations and/or any other laws in this regard shall automatically apply to this Policy.

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