



## **RISK MANAGEMENT POLICY**

### **Back Ground and implementation**

Frontier Springs Limited (the Company) is operating in railway parts/forged products. Being a player in railways/Forged Products industry it is prone to certain inherent business risks. The Company seeks to make the framework for risk management and is intended to formalize a risk management policy; the objective of which is to identify, evaluate, monitor, and minimize identifiable risks. This is not only in compliance with new clause 49 of listing agreement, which requires the Company to lay down procedures about its business related risks, their assessment and minimization but also effective management tool in a growing company. This is the responsibility of the operating management to define the risk associated with its business plans to mitigate them.

**Persons in control of workplaces** have an obligation to ensure that people can come to work at the workplace with minimum risk of injury or illness, to ensure that any plant or substance they provide for work by people who are not their workers is safe when properly used, and safe access to and from the workplace for all people including those who are not their workers.

In all cases employers, employees, persons in control and others with obligations should ensure that the hazards in the industry are controlled using a risk management approach

The Board of Directors of the Company and their Audit Committee shall periodically review the risk management policies of the Company so that management controls the risk through properly defined network. Head of departments/business unit heads shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report them to the Board and the Audit Committee.

### **Management of Risk**

Risk and uncertainties are the familiar concepts to those involved in business. Over the past few decades there is seen a steady move towards a managerial response to these forms of risk. The **risk management** may be defined as *the identification, analysis, mitigation and minimization of those risks, which can threaten the assets or earnings capacity of an enterprise.*

The definition highlights the structured approach towards management of risks. The risks must be identified before they can be measured, and only after their impact has been evaluated, one can decide on the most effective method of control. Cost of control of risk must be commensurate with the benefit expected to be derived. The definition mentions the assets and earning capacity of an organization. These assets can be physical or human; they are both important and risk management must be seen to have a part to play in both. However, risk does not strike at assets directly and affects the earning capacity of an enterprise.

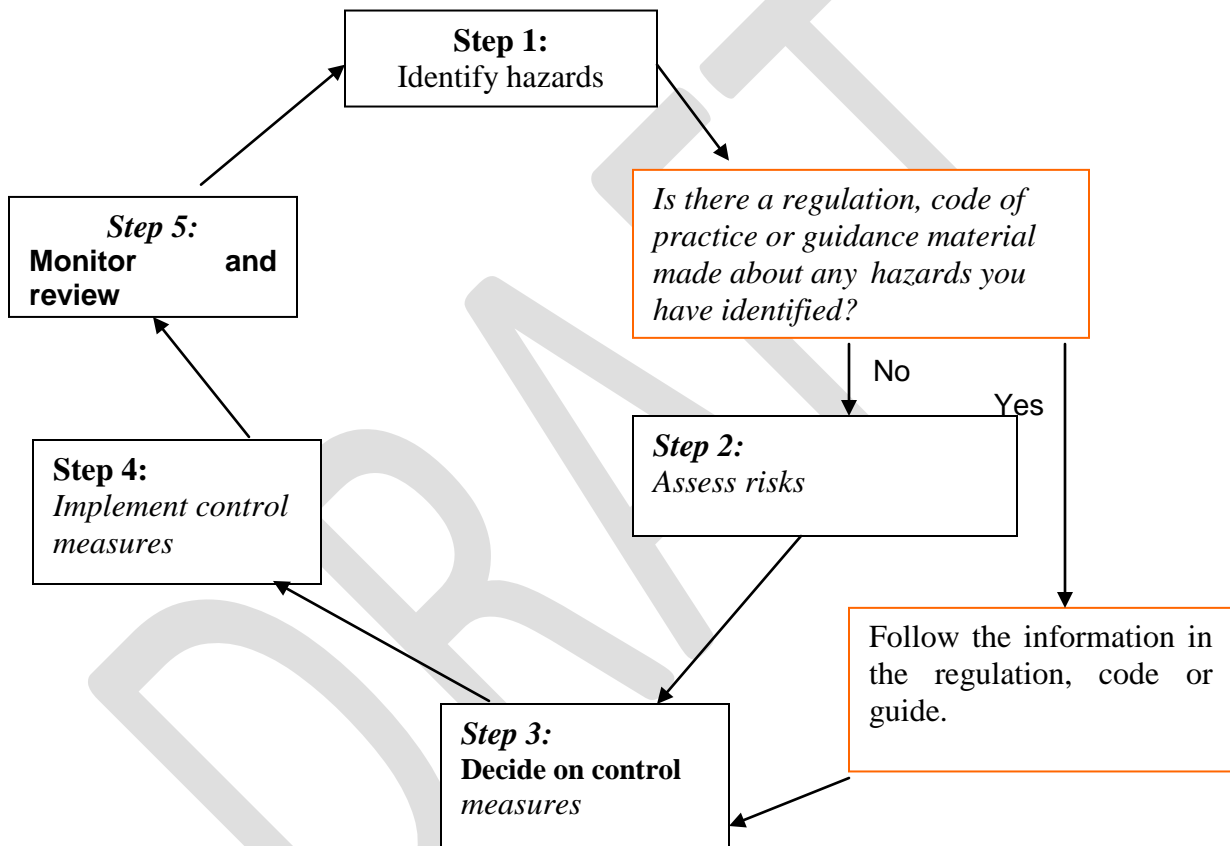
### **Nature of Risk Management**

The management has ultimate responsibility for dealing with all risk facing the organization, including both business and speculative risks. Risk management deals with insurable and uninsurable risks and the choice of the appropriate techniques for dealing with them. The emphasis in risk management is on reducing the cost of handling risk by various means that are considered most appropriate for minimizing them.

## Risk management

There are five basic steps in the workplace of risk management

**Figure: Risk Management Process**



1. Identify hazards
2. Assess risks that may result because of the hazards
3. Decide on control measures to prevent or minimise the level of risk
4. Implement control measures
5. Monitor and review the effectiveness of control measures.

### A. Risk identification

The risk identification is the process by which the Company determines the risk prone areas/activities. The management must look deeply into the operations of the organization and discover the risk to which it is exposed. There are a number of prevalent tools or techniques

including insurance policy, checklists, risk analysis questionnaires, analysis of financial statements, hazard and operability studies, physical inspections of operations, flow and organizational charts, which help in identification of risk to which the organization is exposed. But no individual method or combination of methods can replace the diligence and imagination of the management in discovering the risk to which the Company is exposed. Because risks may lurk in many sources, the management needs a wide-reaching information system, designed to provide a continual flow of information about all aspects of the business of the organization and the changes in operations, the acquisition of new assets and changing relationship with outside entities.

The risks are grouped as critical, important and immaterial.

**Critical risks** include all exposures in which the possible losses are of a magnitude that would affect business solvency.

**Important risks** include those exposures in which the possible losses would not lead to business solvency, but would require the Company to rearrange its finances including more leverage in order to continue operations.

**Immaterial risks** include exposures in which the possible losses could be met out of the existing assets or current income of the firm without imposing undue financial strain.

Assignment of individual exposures to one of these three categories would depend on the financial loss that might result from a given exposure and also the ability of the Company to absorb such losses. The size of an organization would influence the above categorization.

### **Business Risks related to the Company**

The Company is prone to external and internal business risks. The internal and external risks as applicable to the Company are enumerated below:-

**Internal Risks:** Internal risks generally involve inability to perform despite favorable conditions prevailing in the market. These are specific to the unit concerned. In case of Frontier Springs Limited, following internal risks have been identified by the management.

- a. **Risk of materials:** identification and development of vendors for raw materials, sourcing, quality standards, continuous and un-interrupted supply of material, optimization of inventory level are risk related to materials.
- b. **Market driven prices:** The market price for the product of the Company depends upon demand and supply, scale of operations, input cost, Govt. policies and general economic conditions.
- c. **Coordination amongst departments:** Lack of coordination amongst various functional departments, may lead to mismanagement. This can also happen due to lack of internal controls, failure of planning, equipment failure and lack of performance in any of the functional areas of management viz, marketing, Production, finance, etc.
- d. **Project execution risks:** Planning, time management, resource mobilization and quality control are inherent to successful execution of projects. Any failure in quality and delay in completion of projects can constitute a risk to Company's performance.

- e. **Manpower risks:** There is an inherent risk related to skilled and specialized manpower. They gain experience working with the Company and need continuous motivation and supervision. There is a risk of specialized manpower leaving the jobs, joining competitors, sharing confidential information etc. There is also the risk of them being under-utilized or put in areas where they are unfit.
- f. **Technology and consumer preferences related risks:** Changes in technology can also lead to Company lagging behind the competitors. Change in consumer preferences/choices can also make the Company's products less competitive.
- g. **Financial risks:-** These include non- realization of money from customers, increasing interest costs, discontinuance of existing finance facilities by any of the lenders , high cost of carrying inventory, fall in profitability on account of increase in cost or decrease in price of products, fall in liquidity leading to cash flow problems and denial of tax and other benefits.
- h. **Key man risk:** - The top management is responsible for overall business success and its continuity and his absence may be a risk to the Company.
- i. **Compliance Risk:** - Risk of not being able to comply with' the regulations / provisions of:
  1. Listing Guidelines / SEBI regulation
  2. Companies Act requirements
  3. Direct /Indirect Taxes
  4. Health and Safety Regulation
  5. Labour Laws

**External Risks:** External risks involve, risks prone to the Industry as a whole, such as change(s) in Government policies, legal liability, change(s) in business cycles, vagaries of nature affecting business like drought, flood, earthquakes, riots, war etc., and other external factors beyond the control of the Company. Risk of competition may also be included under external risks. Further, the risks classified under the internal and external categories are overlapping and can be handled by a single technique many times.

- a. **Legal liability risks:** For alleged non-compliance/violation of various laws applicable to the Company, there can be legal liabilities on the Company and its management. This may arise and be fixed on Company's directors, individually or collectively, and officers of the Company.
- b. **Government policy risks:** Changes in Government policies in relation to the auto industry, imports and exports may affect its operations and profitability. The Company operates in a highly regulated environment and Central and State government policies and regulations can affect its operations and performance.
- c. **Capital market risks:** The fluctuations in capital market may affect the price and trading of the Company's securities and any downfall in the market can have an adverse impact on the Company's capabilities of raising funds for future requirements.
- d. **Foreign exchange fluctuations:** Depreciation of rupee against foreign currencies may have an adverse impact on the Company's financial viability.
- e. **Market risks:** These may include change in demand for finished product in the market, shift in consumer preferences.
- f. **Others risks:** Pollution, Accidents, heavy rains, strikes etc.

## A.1 Risk Analysis

After the identification stage, steps are required to be taken by the management to measure the potential impact of that risk on the Company. The measurement of risk starts with the gathering of information, followed by the analysis of past experiences, then to judge level of severity of risk and its periodicity to which the Company is exposed. Accuracy and relevance at each stage is to be ensured.

## **Hazard registers**

The *Risk Management* must develop a hazard register or list for all hazards at a workplace. Hazards can be classified under one of the following areas:

- (a) Biological substances
- (b) Energy
- (c) Manual handling
- (d) Plant
- (e) Substances
- (f) Work environment.

## **B. Risk Assessment**

For the Company's perspective, the cost related to risks is looked in a number of ways based upon:

- a) Frequency of risk;
- b) Monetary cost or financial severity and
- c) Human cost.

The management shall evaluate the risks that are identified, which means measurement of potential size of the loss, they are likely to cause. Evaluation requires ranking of risk assessment priorities. Certain risks will require attention prior to others, and in most instances there will be a number of exposures that are equally demanding. This will be the responsibility of the management to decide the priorities based upon number of factors including possible loss.

### ***Risk factors***

'Risk factors' are part of the demands of a job. They affect the worker and can contribute to injury. Risk factors are used to analyse manual tasks and are divided into three categories:

- (a) Direct stressors
- (b) Contributory risk factors
- (c) Modifying risk factors.

No risk factor occurs alone. There is a crossover between the different categories.

### **Implementation of Decision by the management**

The decision for dealing with the risks can be either of the following ways by the Company:-

- a) To retain the risk;
- b) To deal with the risk through loss prevention;
- c) To transfer the risk through insurance.

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### **(a) Minimization of risk**

After the risk has been identified and established that it is important enough to be controlled, physical steps are required to be taken in order to control risk. First step is to reduce the level of the risk as far as it is possible.

### **(b) Loss prevention**

The Company will take steps before any event has occurred to minimize the risk. The essence of pre-loss reduction of risk is that the effects of the losses are anticipated and steps are taken to ensure that they are kept to minimum.

### **(c) Loss minimization**

The Company will take all the requisite control measures, when the risk has occurred to minimize the effect of the loss.

### **(d) Risk retention**

In certain situations, it is wise to retain the risk rather than to seek some other form of protection, such as insurance. Events of frequency and low severity fall in the self-retention category. Retaining risk does not mean for the Company not to be vigilant in their risk management.

### **(f) Risk transfer/insurance**

The Company will take necessary insurance cover in respect of its business operations/assets, which are needed to based upon the past experience, statutory/banking requirements and cost benefit analysis.

### **Risk management procedure/minimization programme**

A detailed procedure for identification of the risks of the Company should be laid down by the management/unit heads in consultation with all the concerned departments and be reviewed periodically. If need be, services of consultants who are experts on the subject, may be taken.

### **A. Hierarchy of control**

The control measures used to control risks in the Auto industry should be chosen according to their effectiveness. The 'hierarchy of control' is a useful tool, as the order tells you which of the types of control measure provides a better level of risk control. The higher in the hierarchy of control, the better and more reliable the control is. Preferably use control measures which are presented first, wherever possible.

<b>Elimination</b> The most desirable option.	If you eliminate a hazard you completely eliminate the associated risk.
<b>Substitution</b>	You can substitute something else (a substance or a process) that has less potential to cause injury.
<b>Isolation/engineering</b>	You can make a structural change to the work environment or work process to interrupt the path between the worker and the risk.
<b>Administrative</b>	You may be able to reduce risk by upgrading training,
<b>Personal protective equipment</b>	When you can't reduce the risk of injury in

The least desirable option.	any other way, use personal protective equipment (gloves, goggles, etc.) as a last resort.
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In practice, several control options are often used in combination. Personal protective equipment is usually used in conjunction with other control measures.

### **B. Consultation**

Consultation is an important risk management strategy as it involves the sharing of information and the exchange of views between employers, workers and their representatives. Workers should be included in the process of identifying, assessing and controlling risks as they know the difficulties in performing particular tasks and may be able to suggest ways to improve work practices. It is recommended that the Workplace Health and Safety Representative and workplace health and safety committees be included in the consultation process.

Consultation can take the form of informal on-the-job interaction during a walk through of the work unit. However, it is also desirable to put a formal structure in place to address issues at regular workplace health and safety committee or staff meetings. This ensures issues are addressed at an early stage and in a formalized manner.

### **C. Data collection**

The collection and review of injury data or statistics is one method of assessing the effectiveness of implemented control measures which also provides a mechanism of identifying other hazards in the workplace.

One of the roles of the workplace health and safety committee is reviewing the circumstances surrounding work injuries, work caused illnesses or dangerous events should be referred to the committee for review.

### **D. Training**

The persons may meet part of their obligations by providing appropriate training to their workers to ensure health and safety. The aim of training is to ensure that workers have the appropriate skills and knowledge to perform their work without risk to the health and safety of themselves and others.

Training should be appropriate to the type of work to be performed. In some cases, formal training will be appropriate, in others, on-the job training may be more appropriate. The special needs of workers should be taken into account in deciding on the structure, content and delivery of training. This should include literacy levels, work experience and specific skills required for the job.

Adequate and appropriate training is a way of managing the risks associated with hazards in factory. This can be done by:

- (a) Determining who needs to be trained
- (b) Determining what training is required
- (c) Determining how training will be delivered
- (d) Ensuring that the training is provided
- (e) Evaluating the training
- (f) Keeping training records.

The amount of training will be determined by the nature of the workplace hazard(s):

- (a) The degree of risk associated with these hazards
- (b) The complex aspects of work, such as operating procedures and equipment
- (c) Other controls being implemented
- (d) The qualification and experience of the worker.



### **Action plan in case of Frontier Springs Limited:**

1. All steps required to monitor/control of external risks and their reduction/minimization, are to be taken by keeping a strict watch on the policies of the government, economic scenario of the country, better customer relationships, better quality of products, competitive pricing, keeping abreast of competitors activities and insurance of the assets of the Company.
2. Internal Business risks are to be controlled and reduced by:-
  - a. Establishment of internal control systems, which involves internal audits and internal checks by internal and external auditors.
  - b. Establishment of Quality Management System through ISO certification and system implementation; and its periodical monitoring by certification agencies.
  - c. Legal liability risks are minimized by ensuring complete legal compliances and constant reporting back to the Board/Committees.
  - d. Implementation of effective HR management for monitoring manpower resources, laying down formal organization structure, rules/regulations/policies, their implementation, and delegation of authorities, maintaining confidentiality of information etc.
  - e. Keeping a watch on the market practices/technology advances/strategies of the competitors for continuous monitoring of the products and marketing policies of the Company as well as understanding consumer preferences.
  - f. Taking insurance of assets of the Company based upon risk cost and benefit analysis.
  - g. Effective management of the financial resources of the Company so that the Company's financial risks are minimized. Foreign exchange risk is managed through forward contracts.
  - h. Aiming the future business with due caution after careful assessment of international and national market indicators, experience from the past and likely future scenario.
  - i. Efficient and cost effective techniques of execution and open to changes and improvements at every stage of operations; and continuous updating of the project management systems.
  - j. Protection of Intellectual property rights of the Company
  - k. Key Man risk – Possibility of Key Man Insurance policy will be examined.

The Company's strategy to manage the risks should be by framing policies and procedures for tangible action plans for risk management. The Company operates in multiple directions and having a diversified business model and should develop practices for identification of potential risks, their assessment, timely and satisfactory risk minimization and mitigation.

### ***Obligations of employers***

An employer has an obligation to ensure:

- (1) Each of the employer's workers is not exposed to risks to their health and safety arising out of the conduct of the employer's business or undertaking
- (2) The employer is not exposed to risks to their health and safety arising out of the conduct of the employer's business or undertaking
- (3) Other persons are not exposed to risks to their health and safety arising out of the conduct of the employer's business or undertaking.

### ***Obligations of persons conducting business or undertaking***

A person (the relevant person) who conducts a business or undertaking has an obligation to ensure each person who performs a work activity for the purposes of the business or undertaking is not exposed to risks to their health and safety.

The obligation applies:

- (a) Whether or not the relevant person conducts the business or undertaking as an employer or self-employed person
- (b) Whether or not the business or undertaking is conducted for gain or reward
- (c) Whether or not a person who performs a work activity for the purposes of the business or undertaking works on a voluntary basis.

***Obligations of persons in control of workplaces***

A person in control of a workplace has the following obligations:

- (g) To ensure the risk of injury or illness from a workplace is minimized for persons coming onto the workplace to work
- (h) To ensure the risk of injury or illness from any plant or substance provided by the person for the performance of work by someone other than the person's workers is minimized when used properly
- (i) To ensure there is appropriate, safe access to and from the workplace for persons other than the person's workers.

For this section, "person in control" of a workplace does not include the occupier of domestic premises.

***Obligation of person in control of relevant workplace area***

The person in control of a relevant workplace area has an obligation to ensure the relevant workplace area is safe and without risk to health.

This section does not apply to a relevant workplace area which is also the domestic premises of the person in control of the relevant workplace area.

***Obligation of person in control of fixtures, fittings or plant included in relevant workplace area***

The person in control of fixtures, fittings or plant included in a relevant workplace area has an obligation to ensure the fixtures, fittings or plant are safe and without risk to health.

***Operator*** – the person or body responsible by reason of ownership, control or management, for the provision, maintenance or operations of plant, or a combination of these; or a person or body acting on its behalf.

**Managing Director**

**Frontier Springs Limited**