

RISK MANAGEMENT POLICY

BACKGROUND

This document lays down the framework of Risk Management at **CHOKSI LABORATORIES LIMITED** (hereinafter referred as the ‘**Company**’) and define the policy for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

OBJECTIVE

The objective of Risk Management at the Company is to create and protect shareholder value by minimizing threats or losses, and identify and maximizing opportunities. An enterprise-wide risk management framework is applied so that effective management of risks is an integral part of every employee’s job.

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 Clause 49 of the Equity Listing Agreement 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 risks, 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 references 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.

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. This Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

- 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 established 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.

APPLICABILITY

This Policy applies to all areas of the Company's operations and shall come into force with effect from October 1, 2014.

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.

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-**

The risks are associated on each business area contributing to total revenue, profitability and liquidity. Since the objects 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 time-frame, as much as higher risks for inflation and resultant increase in costs.

▪ **Technology Obsolescence-**

The Company Strongly believes that Technology Obsolescence is a practical reality. Technology 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 exposures 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 Resources Management
- Culture and values

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.

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.

REVIEW

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

AMENDMENT

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