



❖ RISK MANAGEMENT POLICY ❖
(Minimize, Eliminate, Avoid)



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OBJECTIVES

To minimize the risk of injury to employees and risk of damage or loss to Operations and Assets as well as to its Customers and to the Society by ensuring that each place of business of INEL carries out effective work of risk avoidance and loss control processes and / or procedures.

To establish separate Policies and / or Guidelines for

- ❖ Environment, Health and Safety risks*
- ❖ Product safety risks*
- ❖ Business information security risks*
- ❖ Minimum safety requirements for Assets*

To ensure that, each place of business of INEL carries out effective emergency response plans to ensure that in case of an incident, the effects are contained and the operations are resumed without unnecessary delay.

To ensure that losses on INEL assets, to the extent they are not insured, are borne by the Company which has the Management responsibility of the asset. Non-insured parts of losses due to product liability or product recall claims, which fall on INEL, shall be borne by the manufacturing Unit.

To introduce Risk Assessment / Control programmes



STEPS OF RISK MANAGEMENT

INEL adopts the following steps for Risk Management

- ❖ *Defining Risk*
- ❖ *Assessment of various risks and its impact*
- ❖ *Develop risk control / avoidance programs*
- ❖ *Follow-up, monitor and improve the programme*
- ❖ *Report to Risk Management Committee*



DEFINITION OF RISK

INEL defines risk as anything that threatens to achieving the Company's objectives. Hence, INEL Management

- ❖ Defines relevant business objectives through Business Plan / KRA / Scorecard etc.,*
- ❖ Identifies relevant risks to achieving its objectives*
- ❖ Determines which risks are most critical*
- ❖ Decides on how to deal with these risks*



ASSESSMENT OF RISK

Risk items are discussed and assessed in Management meetings like ECW / Risk Management Committee. Findings and conclusions are documented.

INEL Management decides on action to

- ❖ Eliminate or Reduce risk*
- ❖ Hedge risk*
- ❖ Accept risk*



TYPES OF RISK

INEL has identified the following major types of risks:

- ❖ Strategic (Long term)
- ❖ Operative (Day to Day)
- ❖ Compliance (Laws and Regulations)
- ❖ Financial Reporting

Long Term	Operative	Compliance	Financial
<p><u>Management & Governance</u></p> <ul style="list-style-type: none"> - Organizational Structure - Succession Planning 	<p><u>Physical Assets</u></p> <ul style="list-style-type: none"> - Fixed Assets - Maintenance - Cost Development - Insurance - Security 	<p><u>Regulatory</u></p> <ul style="list-style-type: none"> - Labour - Environmental Health and Safety 	<p><u>Accounting & Reporting</u></p> <ul style="list-style-type: none"> - Reporting and Disclosure - Internal Control - Tax
<p><u>Planning & resource Allocation</u></p> <ul style="list-style-type: none"> - Business Planning / Forecasting - Performance Reporting / Monitoring - Crisis, Disaster and Continuity Planning 	<p><u>Operations</u></p> <ul style="list-style-type: none"> - Procurement - Machine Operations - Inventory - Talent recruitment - Talent retention 	<p><u>Legal</u></p> <ul style="list-style-type: none"> - Contract - Liability - Intellectual Property 	<p><u>Liquidity & Credit</u></p> <ul style="list-style-type: none"> - Cash Management - Credit and Collectables - Currency
<p><u>Market Dynamics</u></p> <ul style="list-style-type: none"> - Competitors - Quality - Technology development - Cost development 	<p><u>Sales & Marketing</u></p> <ul style="list-style-type: none"> - Pricing - Contract Management 	<p><u>Ethics</u></p> <ul style="list-style-type: none"> - Code of Conduct - Conflict of Interest - Fraud 	<p><u>Information Technology</u></p> <ul style="list-style-type: none"> - Security - Access - Availability - Continuity



DEVELOPMENT OF RISK CONTROL PROGRAMS

INEL develops the risk avoidance / control programs after identifying the major risks in each business area and updates every year as and when deemed necessary.



LONG TERM

Management & Governance:

❖ **Organization Structure:**

INEL has defined Organization structure in place. INEL is managed by Managing Director, who reports to the Board of Directors.

INEL has a team of Executive Committee of Management which consists of CEO, CTO, CFO, CS, Heads of Marketing, Manufacturing, Quality and Unit Managers which is lead by Managing Director. Organization Structure has distribution of responsibility and free flow of information.

INEL is a listed Company and is complying Listing Agreement requirements. MD, CEO and CFO&CS are identified as Key Management Personnel.

INEL has also various committees apart from the Board formed for specific purposes as part of Corporate Governance and to guide and monitor the performance of the Company.

Meetings are held as per the frequency prescribed and need based.

Proceedings are documented and circulated to

- ❖ *Audit Committee*
- ❖ *Stakeholders Relationship Committee*
- ❖ *Nomination and Remuneration Committee*
- ❖ *Corporate Social Responsibility Committee*



Management & Governance:

❖ **Succession Planning:**

INEL regards succession planning as a mean to mitigate the risk of losing critical key competence and avoiding the risk of high employee turnover.

INEL identifies the successor for the Head of key functions and for key personnel in each Department for consideration of the Managing Director.

The identified persons are groomed adequately to succeed the present incumbents. This is updated as and when deemed necessary.



Planning & Resource Allocation:

❖ **Business Planning / Forecasting:**

As part of Business risk evaluation, INEL sets the objectives of the Company for long term and short term.

INEL prepares the long term Business Plan at macro level as business strategy for the next few years and detailed plan for immediately succeeding year in the last quarter of each year.

INEL prepares the Annual Business Plan after considering the

- ❖ *Market trend*
- ❖ *Customer behavior*
- ❖ *New Technology*
- ❖ *Long Term objectives and*
- ❖ *Government regulations*

Business Plan for the next year is prepared during Q4 of each financial year.



Business Planning / Forecasting:

Business Plan is reviewed by the Managing Director with the Executive Committee before placing to the Board for approval.

*It sets the objectives of the Company and for each Department in each year aligned with Annual Business Plan. Usually, “**Bottom-up approach**” is followed.*

Forecasts are prepared once in each quarter in line with the changes in Market / Customer, actual trend of the previous period of the year for which Business Plan is prepared.

Forecast is prepared as follows:

- ❖ *Q1 forecast is prepared in March (Business Plan treated as Q1 forecast for April to December)*
- ❖ *Q2 forecast is prepared in June (Updated with April & May actual and rest period with forecast)*
- ❖ *Q3 forecast is prepared in September (Updated with April to August actual and rest period with forecast)*
- ❖ *Q4 forecast is prepared in December (Updated with April to November actual and rest period with forecast)*



Planning & Resource Allocation:

❖ **Performance Reporting / Monitoring:**

On the basis of Business Plan, KRA for each function is identified with the activities planned for monitoring for monitoring in the ECW.

Financial books are closed at each month end and financial results are prepared and circulated to the Managing Director, the Chairman and to the Board of Directors.

Actuals are reported compared with Business Plan and variances are analyzed.

Corrective actions required are discussed in the ECM and reported to Managing Director.

Key Performance Indicators are prepared every month. Benchmarking study is conducted on a need basis.



Planning & Resource Allocation:

❖ Crisis / Disaster / Continuity Planning for Manufacturing:

INEL has contingency plan for Manufacturing through following steps:

- ❖ Shipment through various factories in case of disaster in one factory*
- ❖ Standardized equipment wherever possible*
- ❖ Multi sourcing for supplies, wherever applicable to mitigate the possibility of line stoppage*
- ❖ Periodical & Preventive Maintenance schedules are followed for equipments and Annual Maintenance Contracts are entered into for critical equipments*
- ❖ Adequate Training and Job Rotation to all Operators to reduce dependency*
- ❖ Automate the Production after cost benefit analysis wherever applicable*
- ❖ Documentation of SOPs*

To avoid IT disaster,

- ❖ Proxy Server is maintained at Hosur when the main Server for the data and mails are hosted at Chennai*
- ❖ Data back-up is created at every day in respective Plants and in Hosur and kept in isolated places in Bangalore*
- ❖ SAP data will be hosted at Pune by Tata Technologies*
- ❖ Antivirus Software are installed in all places*



Market Dynamics:

❖ **Competitors:**

INEL regularly performs competitor analysis by benchmarking the various parameters of the available products in the market to see the area for improvement and develop the strong areas.

❖ **Quality:**

INEL adopts TS16949 and it has Quality Manuals and other supporting quality documents are regularly updated.

INEL has system to register Customer complaints to analyze and take corrective actions. All major quality issues are reported to Managing Director.

❖ **Cost Development:**

Cost deviations with reference to quotations are analyzed and corrective actions taken through norms verification process.

INEL has cost compensation provisions with all major customers to compensate for major Raw Material cost variations and also for Forex variation.

Quotations are given and prices are settled with the base reference for Raw material prices and Forex rates to facilitate compensation for escalation of costs by Customers.

Costs are analyzed with that of competitors through financial benchmarking.



OPERATIONAL RISKS

Physical Assets:

❖ Fixed Assets:

INEL has the policy of physically verifying the fixed assets once in a year or as the circumstances warrant.

Physical verification report is compared with book values, reconciled and the differences are sorted out and appropriate accounting treatment is given in the books of accounts.

Impairment study through periodical review of useful life or obsolescence of the fixed assets is carried-out and approvals from competent authorities are obtained and appropriately recorded in the books of accounts.

❖ Maintenance:

INEL has periodical maintenance programs to support continuous production and supply to customers with least breakdown time.

It has also entered into Annual Maintenance Contractors to service the machinery and to provide critical spares in case of business interruption due to break-down.



Physical Assets:

❖ **Insurance:**

INEL has entered into insurance contract with Insurance Companies to cover the risks of Fire, Accident, Theft, Damage or Burglary etc on the basis of reinstatement values.

Insurance is made once in every year and taken with updated values as per Fixed Asset Register (FAR).

❖ **Security:**

All the Fixed assets in all factories and Sales offices are safeguarded with compound wall and provided with Security Guards to prevent theft, damage or loss of assets



Operations:

❖ Procurement:

INEL has the standardized purchase contract and order. INEL follows the purchasing ethics which involves notifying the Managers wherever there is conflict of interest.

INEL follows the arms length principle in case of Related Parties.

❖ Inventory Management:

INEL has the system of verifying the inventory physically through perpetual inventory verification program, month end by Finance personnel / internal auditors and year end by statutory auditors.

Physical quantities are reconciled with books of accounts and abnormalities are reported. Preventive / Corrective actions to avoid the loss are identified and implemented.

Inventory norms are fixed and periodically reviewed to fix the maximum and minimum inventory at any point of time.

❖ Talent Retention:

Employee Turnover ratio is regularly monitored to de-risk the loss of talent. INEL has succession planning and effective training programs to handle the impact due to sudden loss of talent.



Sales & Marketing:

❖ **Pricing:**

INEL regularly performs analysis of pricing and profit monitoring. Strategies with respect to competitors are considered and analyzed with root causes.

Significant loss makers are identified and analyzed with corrective actions periodically.

❖ **Contracts:**

INEL performs and validates the Customer's contracts and confidentiality agreements by legal and finance before signing of the documents with respect to the risks involved in the document for INEL or against the interests of INEL.



COMPLIANCE

Regulatory:

❖ Labour:

INEL has the system to review and monitor the potential liability / risks to the Company in view of Labour laws.

❖ Environmental Health and Safety Risks of employees:

INEL adhere to all legal requirements relating to Environment, Health and Safety.

INEL ensures that health and safety risks of employees are taken care through:

- ❖ Identification of Hazardous processes and subjecting the employees working in such processes to annual medical check-up*
- ❖ Cares the minor ailments through the treatment at hospitals*
- ❖ Insures the risk of hospitalization of all employees through insurer*
- ❖ Insures the risk of personal accidents through the insurer*



Legal:

INEL reports to the Board of Directors, the status of all legal disputes or pending claims against the Company.

INEL also reports all the contingent liabilities foreseen in financial statements.

❖ Product Liability Risks:

INEL covers the product liability through insurer for

- ❖ Product failure liability*
- ❖ Product recall*
- ❖ Product warranty costs involving financial loss*

Product liability insurance values are updated annually on the basis of Business Plan.

❖ Fidelity Risks:

INEL covers the fidelity risks through the insurer for identified employees.

❖ Transport Risks:

INEL policy is to undertake cover for the risks in transporting the materials both inwards and outwards wherever there is insurable interest through insurer.



Ethics:

❖ **Code of Conduct:**

INEL has Code of Conduct approved by the Board of Directors for all employees and the Directors.

The appointment letter for all employees draws reference to the Company's Code of Conduct including conflict of interest.



FINANCIAL RISKS

Accounting & Reporting:

❖ Reporting & Disclosure:

INEL, being a listed Company, reports its quarterly results to the Stock exchanges and to Shareholders in the prescribed form through advertisement in newspapers.

Quarterly results are reviewed by the Audit Committee in the presence of the auditors and the Operational Management and recommended to the Board for approval before announcing the results.

Analytical report is provided to the Audit Committee and the Board highlighting the performance of the company both positive and negative aspects at the end of every quarter.

A detailed presentation is also made to the Board of Directors in every meeting on the business performance of the company, its market share, new business and business forecast.

❖ Accounting:

INEL has internal financial control policy to ensure

- ❖ The safekeeping of Company's assets*
- ❖ Prevention and Detection of fraud on the Company*
- ❖ High quality of Financial Reports*
- ❖ Effective and efficient financial procedures*

INEL has the documentation and updates as and when required for

- ❖ Internal Control instructions*
- ❖ Authorization Policy*



Accounting & Reporting:

❖ **Internal Control:**

INEL has the internal control policy which includes the following.

- ❖ *Controls that are to be performed*
- ❖ *Name of the individual who should perform the control*
- ❖ *Name of the individual who should review and approve the control*
- ❖ *Regulator of the control*

CEO and the Unit Manager are responsible for ensuring that the controls are performed according to the instruction.

The tasks should however, be delegated to the appropriate level in the organization.

❖ **Authorization Policy:**

INEL's authorization policy outlines all authorization and approval rights in the Company / Operating Unit:

- ❖ *A description of the right given*
- ❖ *If applicable, the amount connected with the right*
- ❖ *The position for which the right is given*

Authorization Policy requires that all transactions are signed by two authorized signatories.



Accounting & Reporting:

❖ **Tax:**

INEL endeavours to work for tax compliance and tax planning through legal means. The objective of tax planning is to give contribution to after-tax profits by minimizing taxes.

Since tax legislation always changes, INEL keeps updated of the changes as part of its tax planning.

The income and expenditure are given appropriate treatment in the books of accounts and in the tax computation.

INEL strives to maintain proper documentation of Related Party / Inter-company transactions to prove that the transactions are at “Arm’s Length Price”.

INEL possesses tax knowledge of its own. It seeks external advice to find solutions to specific problems, to gain new knowledge and to minimize risks. INEL tax accounts are subjected to audit.



Liquidity & Credit:

❖ **Liquidity Risk (Risk of not having enough liquidity to meet agreed commitments):**

INEL ensures payment capacity in the form of adequate liquidity to meet any eventuality. A strong financial position is desirable to meet the short term needs.

Short term investments form part of the portfolio in avenues like Term deposits with tenure of less than 365 days, Liquid debt funds etc., with exit option without any exit load.

❖ **Credit Risk (Risk of loss due to the Customers inability to fulfill their commitments):**

INEL has credit policy to accept the transactions with well established Companies and approved credit limits as per authorization policy.

INEL will have to check and monitor the credit risks in the event of customer not fulfilling against their commitment.

INEL reserves the right to stop supplies if credit limits are continuously exceeded.

INEL follows a “Cash & Carry” policy for its Aftermarket customers to avoid credit risk.



Liquidity & Credit:

❖ Currency Risk:

Currency risk affects financial results and equity due to fluctuations in currency rates. It consists of transaction and translation exposure.

Transactions with currency risks are hedged as much as possible and backed by Trade Receivables and Payables and in compliance with FEM Regulations / RBI Policies.

Transactions denominated in foreign currencies are accounted at the exchange rates prevailing at the time of transactions. Monetary assets and liabilities denominated in foreign currency at the year-end are restated at the exchange rate prevailing on the balance sheet date.

Any difference arising at the time of settlement/restatement is recognised in the statement of profit and loss. In the case of forward contracts, the differences between the transaction exchange rate and the forward rate is recognised as income or expense over the life of the contract.

INEL also enters into foreign currency Forward Contract transactions as hedges against firm commitments / highly probable forecast cash flows from time to time as per its requirements of risk management.

The losses or gains arising out of these transactions as at the end of the financial year in respect of contracts that are outstanding are marked to market and taken to the statement of profit and loss.

However, when hedges are proved to be effective, the loss or gain is taken to the reserves and surplus in the balance sheet initially at the end of the financial year and accounted in the statement of profit and loss in the period in which underlying transactions mature.



Liquidity & Credit:

❖ **Financial Investment Risks:**

INEL invests the surplus cash in the financial instruments subject to the Board's directive in terms of exposure to risky avenues like equities.

INEL adopts a safe investment policy to ensure safety of the corpus rather than high returns.

Investments are channelized into tax efficient avenues like

- ❖ *Tax free bonds*
- ❖ *Bank deposits*
- ❖ *Debt Mutual Funds in the form of Liquid Funds, Short Term Funds and Fixed maturity plans depending upon the money market conditions and the expected Government's monetary policy.*

Specific approval is taken from the Audit Committee and Board for investment in Equities, Venture Capital Funds and Inter-corporate Loans / Deposits.

*The Company benchmarks its **Return on Investments** with that of other corporate following similar risk profile.*

Provisions are made for mark to market losses on a quarterly basis while mark to market gains and income from investments are recognized only on realization or on entitlement.

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