RISK MANAGEMENT POLICY

S Chand And Company Limited

Regd. Office: 2nd Floor, A-27, Mohan Co -operative
Industrial Estate, New Delhi – 110044

Tel: 011-48731800

Website: www.schandgroup.com

NOVEMBER 13, 2021

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New Delhi

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INTRODUCTION

This document lays down the framework of Risk Management at S Chand And Company Limited (hereinafter referred to as the **'Company' or 'S Chand'**) and defines 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.

'Risk' in literal terms can be defined as the effect of uncertainty on the desired objectives. Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organisation continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

'Risk Management' is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realization of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources.

The Company recognizes that enterprise risk management is an integral part of good management practice. Risk management is an essential element in achieving business goals and deriving benefits from market opportunities.

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OBJECTIVES

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

Every business is prone to various business risks including both financial and non-financial risks. The risks are varied in nature, and go hand in hand with the business opportunities, and it can never be assured that the Company operates in a totally risk-free environment. Invariably no entity can operate or have the assurance of carrying on business in a totally risk-free environment. The S Chand Group continuously factors in the risk aspects by properly identifying, evaluating and mitigating them. This risk management policy is being formalized in writing for the benefit of all stakeholders.

The term "risk" can be defined as a chance or probability of happening or incurrence of certain events or outcome or the non-occurrence of the events or outcomes. Generally, it is understood in a negative sense and hence its meaning includes hazard, possibility of bad consequences, loss, which could lead to loss or damage to the property, profit, cash flow or capital of a business.

IMPORTANCE OF RISK MANAGEMENT

A certain amount of risk taking is inevitable if the organization is to achieve its objectives. Effective management of risk helps to manage innovation and improve performance by contributing to:

- Increased certainty and fewer surprises,
- Better service delivery,
- More effective management of change,
- More efficient use of resources,
- Better management at all levels through improved decision making,
- Reduced waste and fraud,
- Better value for money,
- Innovation.

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DEFINITIONS

"Risk Management Committee or Committee" means Committee of Board of Directors of the Company constituted under the provisions of The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

"Board of Directors" or "Board" in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013)

"Policy" means Risk Management Policy.

"The Audit Committee" means Committee of Board of Directors of the Company constituted under the provisions of The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

"SEBI" means Securities and Exchange Board of India established under section 3 of The Securities and Exchange Board of India Act, 1992 (15 of 1992).

"LODR" means Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and as amended from time to time.

"Risk Assessment" means the systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

"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 Process" means the systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

REGULATORY FRAMEWORK

Risk Management Policy is framed as per the following regulatory requirements:

A. COMPANIES ACT, 2013

1. Provisions of the Section 134(3)

There shall be attached to financial statements laid before a company in general meeting, a report by its Board of Directors, which shall include—

- Statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

2. Section 177(4) stipulates:

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include, —

- Evaluation of internal financial controls and risk management systems.

3. SCHEDULE IV [Section 149(8)] - CODE FOR INDEPENDENT DIRECTORS

The independent directors shall:

(1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct.

(2) satisfy themselves on the integrity of financial information and those financial controls and the systems of risk management are robust and defensible.

- Securities And Exchange Board Of India (Listing Obligations And Disclosure Requirements) Regulations, 2015, across its different clauses, lays greater stress on risk policy being one of the vital functions of Board and requires that –
  - The board shall ensure that, while rightly encouraging positive thinking does not result in over-optimism that either leads to significant risks not being recognized or exposes the entity to excessive risk.
  - Disclosures in annual report - Risks & concern.
- The Audit Committee will carry out the evaluation of risk management systems.

B. REGULATION 21 OF LODR

S Chand being a listed company is required to adhere to the regulations made both by The Companies Act, 2013 and Regulation 21 of LODR. Where any stipulation is common between The Companies Act, 2013 and Regulations of LODR, more stringent of the two shall be complied with.

MANAGING RISK

Every staff member of the Company 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.

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All the Senior Executives under the guidance of the Chairman and Board of Directors have the responsibility for identifying, assessing and monitoring risk associated with Company's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk.

The following steps are taken in the process:

1. **Risk identification**: To identify organization's exposure to uncertainty.

2. **Risk Evaluation**: To evaluate the identified risks. After risk identification, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks.

3. **Decision Making to manage the identified risk.** This can be quantitative, semi-quantitative, or qualitative in terms of probability of occurrence and possible consequences. It involves-:
    - Loss prevention or avoidance
    - Loss reduction
    - Loss absorption
    - Insurance or risk transfer

4. **Organizing** involves implementation of risk management techniques.

5. **Control** encompasses evaluation of result of application and documentation.

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ROLE OF RISK MANAGEMENT COMMITTEE

The Board has constituted a **Risk Management Committee** consisting of five (5) members including two (2) Independent Directors. The Committee shall not only assist in implementation of the Risk Management Plan of the Board but also monitor its implementation and review. The members of the Risk and Audit Committee shall discharge the role of "Think Tank", ideate and bounce off their collective suggestions to the Board for periodic updating of the Risk Management Plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses S Chand is engaged in or shall undertake.

The following shall serve as the broad Roles and Responsibility of the Risk Management Committee:

(1) To formulate a detailed risk management policy which shall include
  - A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
  - Measures for risk mitigation including systems and processes for internal control of identified risks.
  - Business continuity plan.

(2) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;

(3) To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;

(4) To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;

(5) To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;

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RISK CATEGORIZATION

While risks can be categorized in many ways, the most common categorization is as under:

a) **Business/Strategic Risk** - Business Risk, also referred to as Strategic Risk, is the current and prospective impact on earnings or capital arising from poor business decisions like entering a new business activity or sector without adequate consideration of risk-return trade-off, improper implementation of right decisions, or lack of responsiveness to industry changes. Reputation Risk is also another important Business Risk.

b) **Market Risk** - Market Risk refers to the possibility of incurring loss due to adverse movement of Exchange Rate or Interest Rate. Funding Liquidity Risk is also another Market Risk faced by any corporate.

c) **Credit Risk** - Credit Risk or the risk of default arises due to debtors' inability or unwillingness to pay the dues.

d) **Operational Risk** - Operational Risk can be defined as risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal and compliance risk.

e) **Sustainability Risk** - Environmental, social and governance (ESG) are three central factors in measuring the sustainability and ethical impact of a company. ESG factors, though non-financial, have a material impact on the long-term risk and return of investments. Responsible investors evaluate companies using ESG criteria as a framework to screen investments or to assess risks in investment decision-making.

A. BUSINESS RISKS

i) **Business/Strategic Risk** – Growth and profit are the normal goals of any business organization. However, expanding product portfolio with the sole aim of utilizing the existing infrastructure under the assumption of exploiting the fixed cost and therefore going in for low margin can adversely affect the long-term profitability of the organization.

Risk Mitigation Measures - The risk of improper selection of new product or new business activity may be prevented by adopting systematic approach, for taking decision of entering new business activity.

a) Before introducing any new product/activity all risks involved have to be carefully identified and listed out by all stakeholders viz., the Product Head, Head of Operations, Head of Accounts etc.

b) Profitability of new product has to be carefully evaluated and findings of Break-Even Analysis is to be given due consideration. While doing so assumptions and projections must be examined to rule out the possibility of excessive optimism.

c) The company may lay down maximum gestation period for any new product. Exceptions could be made only in rarest of rare cases with the approval of Management Committee.

d) To mitigate operational risk, detailed process of handling new product must be laid down well in advance and has to be examined by the Accounts and Audit departments to ensure its adequacy.

ii) **Reputation Risk** – The Company's reputation is its most valuable asset. Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. Reputation risk exposure is present throughout the organization.

Risk Mitigation Measures – Preserving a strong reputation revolves around effectively communicating and building solid relationships with all stakeholders viz., shareholders, customers, employees, and general public. Timely and accurate financial reports, compliance with all regulatory requirements, strong corporate governance and excellent customer service are important tools for mitigating this risk.

iii)**Technology Changes Risk** – The way the business is carried out is fast changing on account of advances in the technology. With extensive use of technology, certain business activities can be impacted in the future.

Risk Mitigation Measures – This risk should be mitigated by having a comprehensive Information Technology Policy covering all major aspects of IT like IT Security, Data

Back-up, Disaster Recovery System etc. Services of external experts could be enlisted to meet all these requirements if the company does not have such expertise in-house. Adequate access rights control shall also be ensured. Wherever possible standard software compliant with all basic regulatory requirements shall be selected.

iv) **Regulatory Changes Risk-** Since the Business of the Company is regulated through various rules and regulations, any changes in such regulations can have an impact in the form of additional costs in the matter of compliances to be incurred or restrictions of any specific activities which was hitherto permitted.

Risk Mitigation Measures – Awareness of applicable laws, regulatory prescriptions, and legal & regulatory implications of business practices is the basic requirement for mitigating this risk. As a rule, legal and regulatory implications of various acts of omissions and commissions need to be analyzed by independent legal and compliance officials not reporting to business heads. Any change in applicable statute and/or regulatory prescriptions should be incorporated in the SOP on on-going basis and transmitted across the company.

B. MARKET RISK

i) **Foreign Exchange Risk-** It is the risk of incurring loss on account of adverse movement of forex rates. Our Company is not highly exposed to this risk since we derive an insignificant percentage of our revenues from outside India.

Risk Mitigation Measures – An optimum mix of forward contracts, options and keeping the exposure un-hedged should be used for mitigating Exchange Rate Risk. Usually forward contracts may be the best option during normal times.

ii)**Interest Rate Risk** – It is the risk of interest rate on company's debt moving upwards and adversely impacting profitability.

Risk Mitigation Measures – Reduction of debt levels is the best way to manage interest rate risk for our Company's financials. However, care shall be taken not to enter into exotic derivatives for short term gains which, apart from hedging the existing risk exposure of the company, could expose company to risks not existent on the books.

iii) **Funding Liquidity Risk** – It is inability of the Company to meet financial obligations as and when they arise.

Risk Mitigation Measures – This risk may be mitigated by having in place buffer/stand-by credit facilities with the banks.

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C. CREDIT RISK

Risks of non-settlement of dues by customers resulting in bad and doubtful debts, adversely impacting the profitability of the company.

Risk Mitigation Measures –

i) Meticulously carrying out KYC and Customer Due Diligence process at the time of inception of customer relationship.

ii) Putting in place a robust Credit Process to assess the credit worthiness of customers at the time of sanction of credit limit and at regular intervals thereafter.

iii) Well thought out delegation of credit sanction powers with due consideration for operational requirement and individual risk assessment capabilities.

iv) Examination of audited financials for credit limits above a certain threshold limit.

v) Regular monitoring of amount outstanding vis-à-vis credit limit, delay in payment of dues lengthening credit cycle etc. which could detect Early Warning Signals of impending default.

vi) Robust recovery management and follow up.

D. OPERATIONAL RISKS

i) **Input Costs Risk** – Volatility in paper prices which is our key raw material cost is one of the key challenges for the Company which could directly affect the business and the profitability of the Company.

Risk Mitigation Measures – We continuously monitor the changes in the prices and negotiate contracts with vendors to ensure timely delivery of paper required and keep the raw material cost to the minimum level.

ii) **Legal & Compliance Risk** – Legal Risk arises due to noncompliance with statutory responsibilities and/or adverse interpretation of and/or unenforceability of contractual provisions. Compliance Risk arises because of its failure to comply with laws, regulations, rules, guidelines applicable to company's line of business. At times, these could be overlapping.

Risk Mitigation Measures – Awareness of applicable laws, regulatory prescriptions, and legal and regulatory implications of business practices among senior management is the basic requirement for mitigating this risk. As a rule, legal and regulatory implications of various acts of omissions and commissions need to be analyzed by legal and compliance officials. Any change in applicable statute and/or regulatory prescriptions should be incorporated in the SOP on on-going basis and transmitted across the company.

iii) **People Risk** – The risk that people do not follow the company's procedures, practices and/or rules, i.e., they "deviate" from expected behavior. Such deviation can be broken down into two components: deliberate deviant behavior (human fraud - internal) and nondeliberate deviant behavior (human error).

Risk Mitigation Measures – The risks of human error and human fraud can only be minimized. It cannot be completely eliminated. The risk of human error may be minimized by adopting following measures:

a) Employees to undergo periodical training programs, display of posters, ready to refer display cards etc.

b) Having robust internal audit system for ensuring that laid down processes are being followed at all levels and for timely detection of delinquencies.

c) Ensuring that audit findings are attended/rectified/implemented in a time-bound manner.

d) Adopting an efficient process for quick investigation and an efficient disciplinary process culminating in appropriate disciplinary action, ranging from issuing a cautionary letter to dismissal of erring employee, commensurate with the lapses.

e) Giving Internal Auditors unhindered access to all places of business to conduct surprise checks.

iv) **Systems & Cyber Security Risk** – The risk arising out of complex or poorly designed computer-based Information Technology systems either because they are unfit for the purpose or because they malfunction. This also includes data integrity risk due to poor software design or coordinating and interfacing risk. This could lead to frauds and IT Security failures. Data breaches have massive negative business impact and often arise from insufficiently protected data. The proliferation of technology enables more unauthorized access to the organization's information than ever before. Third-parties are increasing provided with information through the supply chain, customers, and other third and fourth-party providers. The risk is compounded by the fact that organization is increasingly storing large volumes of personally identifiable information on external cloud providers that need to be configured correctly in order to sufficiently protect data.

Risk Mitigation Measures – The system risk should be mitigated by having a comprehensive Information Technology Policy covering all major aspects of IT like IT Security, Data Back-up, Disaster Recovery System etc.

Further, selection of a reliable software vendor is also of great importance. Adequate access rights control shall also be ensured. Testing of software at the time of selection and periodic modifications by the vendor as well as conducting User Acceptance Test (UAT) by carefully selected company officials is also critical to mitigate this risk. Wherever possible standard software compliant with all basic regulatory requirements shall be selected.

From a Cyber Security perspective, some of the following steps can be taken-:

- Administering security procedures, training and testing regularly
- Maintaining secure device configurations, up-to-date software, and vulnerability patches
- Deployment of intrusion detection systems and penetration testing
- Configuration of secure networks that can manage and protect business networks
- Deployment of data protection and loss prevention programs and monitoring
- Restriction of access to least required privilege
- Encryption of data where necessary
- Proper configuration of cloud services
- Implementation of vulnerability management with internal and third-party scans

v) **External Events Risk** – External events – both expected and unexpected - can have a major impact on the company. This includes disruptive events like fire, flooding, earthquakes, terrorist actions, vandalism, power failures, pandemic etc.

Risk Mitigation Measures – The Company should have in place appropriate arrangements like data back-up, disaster recovery systems and procedures etc. to ensure that it can continue to function and meet its obligations in the event of an unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness. Against the monetary loss arising out of such events the company should evaluate cost and acquire proper insurance, wherever deemed necessary

Basically the risk control strategies must consider the probability and consequence of the risks and focus on main risks through proper evaluation. The normal process amongst the stakeholders involves collection of information, brainstorming, prioritization, and mitigation plans. The process of risk management would necessitate avoidance like change of the project plan on account of time, costs, scope, quality, etc.

E. SUSTAINABILITY RISKS

Environmental factors determine a company's stewardship of the environment and focus on waste and pollution, resource depletion, greenhouse gas emissions, deforestation, and climate change. Social factors look at how a company treats people and focuses on employee relations and diversity, working conditions, local communities, health and safety, and conflict. Governance factors look at corporate policies and how a company is governed.

(i) **Environmental risks** created by business activities have actual or potential negative impact on air, land, water, ecosystems, and human health. The Company shall take proper steps for managing resources and preventing pollution, reducing emissions and climate impact, and executing environmental reporting or disclosure.

(ii) **Social risks** refer to the impact that companies can have on society. The Company shall undertake social activities such as promoting health and safety, encouraging labour-management relations, protecting human rights and focusing on product integrity. Social positive outcomes include increasing productivity and morale, reducing turnover and absenteeism and improving brand loyalty.

(iii) **Governance risks** are well taken care of. The rapidly changing legislative framework in India requires a very stringent compliance by corporate entities to the provisions of the Companies Act, 2013, Secretarial Standards, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, and various other regulations framed by SEBI on a regular basis, which provide stringent provisions including imposition of penalty and prosecution.

The Company's Code of business ethics is the key guideline for all employees. The Company is committed to high ethical standards and integrity in its businesses, preventing corruption and violations of the principles set forth in the code of business ethics of the Company. The Company's top management has zero tolerance for corruption and fraud.

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BUSINESS CONTINUITY PLAN

A business continuity plan (BCP) outlines how a business will continue operating during an unplanned disruption in service. The BCP is generally conceived in advance and involves input from key stakeholders and personnel.

BCP involves defining any and all risks that can affect the company's operations, making it an important part of the organization's risk management strategy. Risks may include natural disasters, fire, flood, or weather-related events—and cyber-attacks.

REVIEW

This policy shall evolve by review by the Committee and the Board from time to time as may be necessary. This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.

MODIFICATION

Modifications to this Policy may be carried out with the approval of the Board of Directors to maintain compliance to laws and regulations and/ or to accommodate organizational changes within the Company.

APPLICABILITY

This Policy shall come into force with immediate effect.

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