Enterprise Risk Management Framework

GUJARAT FLUOROCHEMICALS LIMITED

Contents

1. INTRODUCTION

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

"Value is a function of risk & return. Every decision either increases, preserves, or erodes value"

Given that risk is integral to the pursuit of value, Inox Group does not strive to eliminate risk or even to minimize it rather, it seeks to manage risk exposures across all parts of their business verticals so that, at any given time, they incur just enough of the right kinds of risk—no more, no less—to effectively pursue strategic goals.

That's why risk assessment is important. It's the way in which Inox Group gets a handle on how significant each risk is to the achievement of their overall goals. To accomplish this, enterprises require a risk assessment process that is practical, sustainable, and easy to understand.

2.CONTEXT

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

Context

- This document lays down the framework of Risk Management at Inox Group (hereinafter referred to as the '**Group**') and defines the policy for the same.
- Unless specified otherwise, the term "Group" includes following three companies of the group
  - a) Gujarat Fluorochemicals Limited (GFL)
  - b) Inox Wind Limited (IWL)
  - c) Inox Leisure Limited (ILL)
- This document shall be under the authority of the Board of Directors of the Respective Companies. It seeks to identify risks inherent in any business operations of the Company and lays down the mitigation methods which are periodically reviewed and modified in a manner commensurate with the size and complexity of the business.

a) Objective

To define a common framework to be applied by business management and other personnel, which identifies potential events that may affect the group, manage the associated risks and opportunities and provide reasonable assurance that our Groups objectives are achieved. This can be further granulated into the following:

- Ensure that all the current and future material risk exposures to Inox Group are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- To create awareness among the employees to assess risks on a continuous basis & develop risk mitigation plans in the interest of the Company.
- To assure business growth with financial stability.

b) Regulatory

This framework complies the requirements of Risk Management Framework of 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—

   (n) a 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, —

   (vii) Evaluation of internal financial controls and **risk management** systems."

3. Schedule IV [Section 149(8)] :

   Code for Independent Directors:
   II. Role and functions:

   "The independent directors shall:
   (1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of **risk management**
   (4) satisfy themselves that the **systems of risk management** are robust and defensible."

B. Regulation 17 of SEBI (Listing obligations and Disclosure Requirements) Board of Directors

9 (a) The listed entity shall lay down procedures to inform members of board of directors about **risk assessment** and **minimization** procedures.
9 (b) The Board of Directors shall be responsible for framing, implementing and monitoring the **risk management plan** for the listed entity.

C. Regulation 18 of SEBI (Listing obligations and Disclosure Requirements) Role of Audit Committee (Part C of Schedule II)

11. The role of the Audit Committee shall include the following:
    Evaluation of internal financial controls and **risk management systems**

3.FRAMEWORK

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

a) Definition of ERM

Enterprise risk management at Gujarat Fluorochemicals Limited is derived from COSO ERM – Aligning Risk with Strategy and Performance 2016 (Draft) framework established by committee of sponsoring organizations. According Enterprise Risk Management is

"*The culture, capabilities, and practices, integrated with strategy-setting and its execution, that organizations rely on to manage risk in creating, preserving, and realizing value*"

b) Components of ERM

1. **Risk Governance & Culture***:* The Group has an elaborate risk management process which is formulated based on the principles of business risk assessment, operational controls and compliance to various policies. The Group proactively identifies and systematically resolves all the major risks. The Board, through the annual report, in management discussion and analysis section of director's report, communicates the major risks pertaining to the business of each company to all the stakeholders. The group also demonstrates the highest commitment to Integrity and Independence of its board, management and staff by laying down an exhaustive code of conduct addressing covering Ethical Conduct, Conflict of Interest, Compliance of Applicable laws etc.
2. **Risk, Strategy & Objective Setting**: Inox Group follows Risk Governance by embedding Risk into Strategic planning and day to day operations of all the companies within the group. Functional leaders identify internal and external risks with the help of external professionals which are then reviewed by the audit committee and the board.
3. **Risk in Execution** – Inox Group, for all its companies maintains a comprehensive risk register which captures all the risk faced by its companies. Further these risks and responses are classified into four factors such as impact, likelihood, vulnerability, Speed of Onset of Action. Also, Inox group has defined its Risk appetite in this framework (Refer section 5 Risk Appetite). Any risk having a net exposure greater than the risk appetite will be deliberated at the Audit Committee level.
4. **Risk Information, Communication & Reporting** – Communication of information is a continual and essentially core function of the business. Inox Group has encouraged the leverage of information systems to capture, process and manage data and information. Management reviews the risk culture using qualitative and quantitative information from internal and external factors to assess the performance of business and reports it to the stakeholders of the business.

5. **Monitoring Enterprise Risk Management Performance** – Audit committees which report to the board are in charge of monitoring the ERM performance. During their quarterly meetings, all the responses to all the risks, which are above the Risk Appetite are being deliberated between the management and the audit committee.

c) Risk Escalation Matrix

Risk Classification	Addressed at Which level
Within Risk Appetite	Management Reporting
Above Risk Appetite	Audit Committee
Above Risk Appetite & "Very High" (Rating 5 on Onset Scale)	Board
Above Risk Appetite & "Very High" (Rating 5 on Vulnerability Scale).	Board

d) Addition/Deletion of Risks

- Audit committee of the respective companies shall be the sole custodian of the Risk management framework.
- All New risks will be Identified and Classified as per the section "Identification and Classification of risk".
- Company Secretary shall propose such risks to be added in the risk register to the Audit committee.
- Upon its Approval, Chief Financial Officer shall revise the risk register accordingly.
- Chief Financial Officer be responsible to re-verify the Classification and Responses to risks mentioned in the Risk Register.

e) Revision

- This framework will be placed to the board of the respective companies on annual basis for revisions to it, if any.
- Revisions adopted by the board then shall be incorporated in this document by Chief Financial Officer.
- On Revision of the framework, the version number shall be upgraded by a decimal digit in spaces of ten, mentioning the changes on the first page of the document.
- Risks as per the Risk Register shall be revised in terms of their classification, measurement and response on annual basis.

4.RISK DEFINITION & MEASURMENT

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

A.) Definition

"The possibility that events will occur and affect the achievements of strategy and business objective "

Thus
1. Events, having positive (opportunity) and negative (threat) outcomes are covered the definition.
2. Risk is a multiplier between the occurrences (likelihood) and the effect (impact).
3. Risk is different from uncertainty. While uncertainty is state of not knowing how potential events may or may not manifest, risk is a possibility that events will occur.

Therefore, Value is a function of Risk and Return, every decision either increases, preserves or erodes the value.

B.) Measurement

"Risk will be measured on annual basis using residual techniques"

Level of Risk
- Risks are measured at two levels, Inherent and Residual risk.
- Inherent risks is the risk to an entity in absence of any actions of management might take to alter either the risk likelihood or impact.
- Residual Risk: Risk remaining after management response to the risk.

Methods of Measurement

- There are two methods of measuring risk : Qualitative and Quantitative
- Qualitative: Assessment of each risk and opportunity accordingly to descriptive scales , for example (Very, High, Medium, Low)
- Quantitative: Assessment of risk and opportunity according to numbers for (5 for Very high, 4 for high)

5. RISK IDENTIFICATION & CLASSIFICATION

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

A) Risk Identification

a) Each Risk shall be reported by any level of management using the Event Sheet to Company Secretary.
b) Company Secretary shall forward the sheet to the concerned CEO of the company who shall assign
   - Risk Grades
   - Risk Response
b) This event sheet shall then be presented to the Chief Financial Officer, who shall decide on whether the risk merits inclusion of the same in the risk register and should be presented to the audit committee
c) Accordingly, Chief Financial Officer the risk shall be presented in the Audit committee.

B) Risk Classification

B1 Risks will be grouped into four categories
1) Strategic
2) Operational
3) Compliance
4) Financial and Reporting

Examples of Risks

Types of Risks	
Strategic Risks	• Reduction in business vitality (due to change in business strategy, customer spending patterns, product discovery & development, changing technology, etc.) • Loss of intellectual property & trade secrets • Competition for talent • Negative impact to reputation/loss of trust mark
Operational Risks	• Disruption to product supply • Counterfeiting • Inefficient use of resources/increased product cost • Physical property/damage/disruption • Loan repayment schedules not adhered
Compliance Risks	Violation of laws or regulations governing areas such as: • Environmental • Employee health & safety • Product quality/safety issues • Local tax and statutory laws
Financial and Reporting Risks	• Currency exchange, funding & cash flow, credit risk

	• Financial misstatement (including violation of the Companies Act, 2013 and Clause 49 of Listing Agreements

B2 Each Risk will also be assessed and graded into four parameters.

1) Likelihood
2) Impact
3) Vulnerability
4) Speed of Onset

B3 Each of the parameters mentioned above shall be graded from one to five, one being the lowest severity. Inherent Risk shall be arrived by multiplying the score of Likelihood with the score of Impact. While each risk will have separate categorizations for Vulnerability and Impact

B4 Impact Scale

Rating	Descriptor	Illustrative Example
5	Extreme	• Financial loss of Rs. 10 crore or more • International long-term negative media coverage; game-changing loss of market share • Significant prosecution and fines, litigation including class action • Significant injuries or fatalities to employees or customers • Multiple senior leaders leave
4	Major	• Financial loss of Rs. 7.5 to 10 crore or more • National long-term negative media coverage; significant loss of market share • Report to regulator requiring major project for corrective action • Limited in-patient care required for employees or third parties, such as customers or vendors • Some senior managers exit, high turnover of experienced staff, not perceived as employer of choice
3	Moderate	• Financial loss of Rs. 5 to 7.5 crore or more • National short-term negative media coverage • Report of breach to regulator with immediate correction to be implemented • Widespread staff morale problems and high turnover
2	Minor	• Financial loss of Rs. 2.5 to 5 crore or more • Local reputational damage • Minor injuries to employees or customers • General staff morale problems and increase in turnover
1	Incidental	• Financial loss of Rs. 2.5 crore or less • Local media attention quickly remedied • Not reportable to regulator

		• Isolated staff dissatisfaction

B5) Likelihood Scale

Annual Frequency		
Rating	Descriptor	Occurrence
5	Frequent	Up to once in 1 year or more
4	Likely	Once in 1 year upto once in 2 years
3	Possible	Once in 2 years upto once in 3 years
2	Unlikely	Once in 3 years upto once in 5 years
1	Rare	Once in 5 years or less

B6) Speed of Onset Scale

Speed of Onset Scale		
5	Very High	• Very rapid onset, little or no warning, instantaneous
4	High	• Onset occurs in a matter of days to a few weeks
3	Medium	• Onset occurs in a matter of a few months
2	Low	• Onset occurs in a matter of several months
1	Very Low	• Very slow onset, occurs over a year or more

B7) Vulnerability Scale

Vulnerability Scale		
5	Very High	• No scenario planning performed • Lack of enterprise level/process level capabilities to address risks • Responses not implemented • No contingency or crisis management plans in place
4	High	• Scenario planning for key strategic risks performed • Low enterprise level/process level capabilities to address risks • Responses partially implemented or not achieving control objectives • Some contingency or crisis management plans in place
3	Medium	• Stress testing and sensitivity analysis of scenarios performed • Medium enterprise level/process level capabilities to address risks • Responses implemented and achieving objectives most of the time

		• Most contingency and crisis management plans in place, limited rehearsals
2	Low	• Strategic options defined • Medium to high enterprise level/process level capabilities to address risks • Responses implemented and achieving objectives except under extreme conditions • Contingency and crisis management plans in place, some rehearsals
1	Very Low	• Real options deployed to maximize strategic flexibility • High enterprise level/process level capabilities to address risks • Redundant response mechanisms in place and regularly tested for critical risks • Contingency and crisis management plans in place and rehearsed regularly

6. RISK APPETITE

Version 1

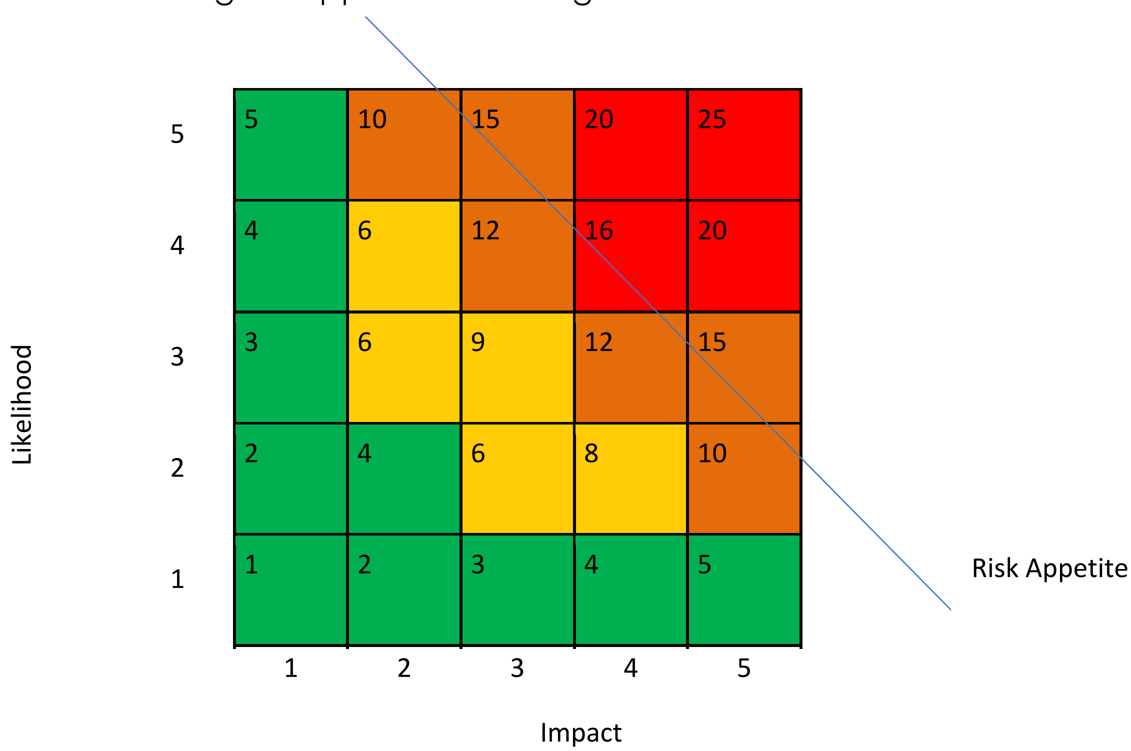
GUJARAT FLUOROCHEMICALS LIMITED

Risk Appetite

- As explained Risk is a multiplier of likelihood and impact.
- In our case, likelihood and impact have been assigned the maximum score of 5. Therefore the maximum possible risk would be 5 x 5 = 25 (Maximum Likelihood score x Maximum impact score)
- The scale of appetite is tabulated below –

Risk Score	Areas	Acceptance of Risk
16-25	Red	Board Level
10-15	Orange	Executive Management
6-9	Yellow	Departmental HODs
Less than 6	Green	Users

Risk Matrix showing risk appetite of the organization –



7. RISK RECORDING

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

Risk Recording

The group has identified broad risks applicable to the business and recorded it in Risk Registers for the purpose of continuous monitoring. A Risk register for the Group has been prepared and approved by the Board of Directors.

The Risk Register records details of all the risks identified at the beginning and during the process of Risk Management Process, their grading in terms of likelihood of occurring and seriousness of impact on the project, initial plans for mitigating each high level risk, the costs and responsibilities of the prescribed mitigation strategies and subsequent results.

The recording, management and analysis of risk incidents is a critical component of the risk management process. The other key components, being risk and control self-assessment and key risk indicators, are primarily focused on preventing risk incidents from occurring and if they do occur, to ensure the negative consequence is limited.

As part of Risk management framework it is important that the incident management processes are consistent and integrated into the overall framework so maximum value can be created from the sharing of information and consolidated reporting. To add, modify or delete any risk appropriate level of management has been delegated with the responsibilities.

Inox Group- Enterprise Risk Management											
Group Risk Register											
Gujarat Fluorochemicals Limited											
Risk ID	**Description of Risk**	**Type of Risk**	**Impact**	**Likelihood**	**Impact**	**Vulnerability**	**Speed of Onset**	**Overall Risk Score (Likelihood X Impact)**	**Date of Review**	**Mitigation Actions**	**Responsibility**
PR01	Inadequate funding to complete the project Identified triggers: Funding is redirected; Costs increase (poor quality materials/ inaccurate cost estimates)	Operational Risk	Budget blow out means cost savings must be identified – i.e. Reduced output quality, timeframes are extended, outcomes (benefits) will be delayed and/or reduced.	5	5	3	3	25	10th August, 2017	Re-scope project, focusing on time and resourcing	Project Lead – Mr. XYZ

8. RESPONSE CLASSIFICATION

Version 1

GUJARAT FLUOROCHEMICALS LIMITED

Risk Classification

The Group has developed risk response strategies based on the risks that are identified and quantified. Based on the evaluation of risk based on criteria of likelihood and Impact, the overall risk score has been derived. However, risks need to be prioritized in their order of importance for developing and deploying risk response mechanism.

Risk response strategy is based on risk tolerance adopted by the Group. Risk tolerance in terms of severity is the point above which a risk is not acceptable and below which the risk is acceptable.

The Group follows a five-step process to make changes to better their approach to risk management in response to the developments in internal and external environments to address the risk management process:

1. To identify and understand the major risks
2. To decide which risks are natural and binding to the organization?
3. To determine the capacity and appetite for identified risks
4. To embed risk in all decisions and processes
5. To align governance and organization around risk

There are many reasons for selecting one risk strategy over another, and all of these factors must be considered. Cost, Severity or Speed of Onset are the most likely reasons for a given risk to have a high impact. Other factors may affect our choice of risk strategy. The strategy should be appropriate based on overall criteria analyzed by the Audit Committee.

The classification of the response shall be as follows –

Tolerance / Accept Risk – One of the primary functions of management is managing risk. Some risks may be considered minor because their impact and probability of occurrence is low. In this case, consciously accepting the risk as a cost of doing business is appropriate, as well as periodically reviewing the risk to ensure its impact remains low.

Terminate / Eliminate Risk – It is possible for a risk to be associated with the use of a particular technology, supplier, or vendor. The risk can be eliminated by replacing it is possible for a risk to be associated with the use of particular technology, supplier or vendor. The risk can be eliminated by replacing the technology with more robust products and by seeking more capable suppliers and vendors.

Transfer / Share the risk - Risk mitigation approaches can be shared with trading partners and suppliers. A good example is outsourcing infrastructure management. In such a case, the supplier mitigates its risk associated with managing the IT infrastructure by being more capable and having access to more highly skilled staff than the primary organization. Risk may also be mitigated by transferring the cost of realized risk to an insurance provider.

Treat / Mitigate the risk - Where other options have been eliminated, suitable controls must be devised and implemented to prevent the risk from manifesting itself or to minimize its effects.

Turn back - Where the probability or impact of the risk is very low then management may decide to ignore the risk.