

KELTECH ENERGIES LTD

Risk Management Policy

I Risk Management Definition:

Risk Management is the set of processes, which has to be enforced at every operation and business process level through which the Management identifies, analyses and wherever necessary responds appropriately to risk that might adversely affect realization of the Company's business objectives. The response to risk typically depends on its perceived gravity and involves controlling, avoiding, accepting or transferring them to a third party. The basic idea is to monitor and ensure that the risk levels do not exceed the limit set by the Management in accordance with the guidelines.

II The Need:

Clause 49 of the Listing Agreement requires the Company to lay down procedures about risk assessment and risk minimization. The Company has adopted the Risk Management Policy (RMP) applicable to all the employees.

III Introduction & Objective:

The basic purpose of any RMP is to benchmark the Company's standards for risk taking for every single activity and provide a guide to each employee for any queries or doubts. It also helps the Company to effectively prevent and detect fraudulent activity and take remedial measures to protect its brand, reputation, assets and interests of employees and stakeholders.

IV Risk Factor:

Every business is exposed to a certain amount of risk and concerns inherent in it, some of the risks pertaining to the Company's business are:

a) Raw Material Risk:

Ammonium Nitrate is the principal raw material for the manufacture of explosives. The explosive Industry approximately requires 6 lac MT of Ammonium Nitrate, whereas the domestic manufactures meets about 70% of it's requirement and balance 30% or about 2 Lac MT is imported for manufacturing purposes. The sources of domestic supply are M/s Rasthriya Chemicals & Fertilizers Ltd , M/s. Gujarat Fertilizers Corporation Limited and M/s. National Fertilizers Limited all Public sector undertakings and M/s Deepak Fertilisers & Petro Chemicals Corporation Limited a Private company. Any disruption in their production activities could severely impact our operations. Availability of Imported AN is uncertain and prices are unpredictable. With the introduction of stringent Ammonium Nitrate rules by Govt and deeming it to be explosives and application of similar laws, procurement, transportation, storage etc are bound to impact availability and price.

b) Price Risk:

With raw material prices being highly volatile, any abnormal increase in prices of the raw materials especially that of AN, HSD and Guar Gum is bound to severely affect the bottom-line. Secondly 70% of our sales are being made to Public Sector Undertakings like M/s Coal India Ltd., M/s Singareni Collieries

Co. Ltd and M/s NMDC Ltd. The pricing of explosives is governed by Tendering System does not always compensate to price rise in inputs.

Liquidity Risk:

Liquidity risk refers to the risk of not being able to meet a financial obligation when it becomes due and consequently affect operations.

d) Adverse Weather Conditions:

Operations in the opencast mines will be affected if the monsoon is severe and prolonged thereby resulting in decline in sales.

e) Competition Risk:

The increase in number of small players in the business has added to the already existing stiff competition. Increased availability of products has resulted in market flooding bringing down the prices. Higher spends by the competition in sales promotion can also bring pressure on the company to match thereby reducing the existing margins.

f) Financial Risk:

The Company being into Explosives business sector it may not be able to secure the requisite amount of financing or manage its expansion process in a bigger way due to squeezed margins which could adversely affect its financial condition.

g) Research & Development (R & D) Risk:

The Company has undertaken diversification in Emulsion Technology in packaged explosives and has made substantially investments into above project. The market segment of this product is mainly in unorganized sector. Un-remunerative prices or imposition of any new rules by government may adversely affect the margins.

h) Risk of Fraud:

Fraud may involve:

- a Misappropriation (theft) or wilful destruction (e.g. property, records, etc.) or loss of assets including cash, inventory etc.;
- b Unauthorized personal use of assets of the Company;
- c Bribery and corruption i.e. where someone is influenced by payment in cash or benefit in kind to unreasonably use his or her position to give some advantage to another;
- d Inappropriate relationships with third parties thereby causing conflict of interest;
- e Manipulation, falsification or alteration of financial statements, other records or documents;
- f Suppression or omission of the effects of transactions from records or documents;
- g Recording of transactions without substance;
- h Deliberate misapplication of accounting or other regulations or policies;
- i Disclosing confidential information to third parties without authority; and
- j Misconduct involving wrongful, improper, unethical or unlawful conduct in violation of the Company's policies, laws or regulations.

Approvals & Licences:

The Government still controls grant of licenses to new sites or any expansions. In view of growing demand for Bulk Explosives the company is required to expand itself into new areas of demand and set up small units for servicing customers. Delay in granting IL will severely affect business development.

V The Risk Management Team (RMT)

The primary objective of RMT is to control various risks associated with operations of the Company and prevent unacceptable losses by effectively identifying, measuring and monitoring the business suitability of risk containment measures and consider the pros and cons and all related factors affecting the same.

RMT consists of the Managing Director, Director (Operations) and Senior Level Management officials. RMT may induct such additional members into it as and when found necessary. RMT is also authorized to call such other executives, employees and representatives of third parties to appear before it as may be required.

RMT functions include:

- ∑ To evaluate and review the guidelines and risk limits set for at regular intervals and decide on the changes to be made, if any.
- ∑ To decide on the risk profile of new projects and its implication on the existing business processes.
- ∑ To reject or modify any prior decision, if it is felt that the risk profile of any such activity will be detrimental to the overall risk policy of the company.
- ∑ To ensure that the above is strictly adhered to and in case of deviation, reasons for such deviations are questioned and remedial measures are immediately taken.
- ∑ To record all complaints received from employees and third parties on suspected incidents of fraud / misconduct.
- ∑ To conduct reviews, inspections and investigations to identify the facts/ details about the reported incident and identify the perpetrator.
- ∑ To take appropriate disciplinary actions against the perpetrator.
- ∑ To take necessary steps to recover losses and misappropriated assets.
- ∑ To report to the Audit Committee and the Board of Directors periodically.

VI Risk Management System:

The Company has a system-based approach to business risk management backed by internal control systems. The risk management framework consists of the following elements:

- i. Appropriate structures have been put in place to effectively address the inherent risks in businesses with unique / relatively high risk profiles.
- ii. An independent Internal Audit function at the corporate level carries out risk focused audit of the business, enabling identification of areas where risk management process may need to be

improved. The Audit Committee reviews Internal Audit findings, and provides strategic guidance on internal controls. It monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.

The combination of policies & processes, as outlined above, adequately addresses various risk associated with the Company's business. The senior management of the Company periodically reviews the risk management framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.

VII Risk Management & Awareness for Fraud Risk:

Any person with knowledge of suspected or confirmed incident of fraud /misconduct or who is personally being placed in a position by another person to participate in a fraudulent activity must report the case immediately to the RMT. The Company encourages the use of the following mechanisms for effective and efficient handling of reported incidents:

All employees will be responsible for reporting suspected or confirmed cases of fraud / misconduct and extend full co-operation during internal checks, reviews or investigations to safeguard the Company's brand, reputation and assets.

Further, employees will:

- Adhere to and comply with the Company's policies and procedures;
- Act with highest standards of ethics and integrity;
- Ensure confidentiality of the Company's resources and information; and
- Avoid accepting gifts, hospitality or benefits of any kind, which compromise integrity and standards of business conduct.

All Head of Departments (HoDs) will be responsible for educating their team members on the importance of complying with the Company's policies & procedures and identifying / reporting of suspicious activity.

VIII Disciplinary Action:

RMT in consultation with Audit Committee and Board shall determine the disciplinary action to be taken against the perpetrator in the event of confirmed incident of fraud / misconduct. Disciplinary action may involve suspension or termination of employment, penalty, criminal or civil action etc.
