NATIONAL HANDLOOM DEVELOPMENT CORPORATION LIMITED

(A Govt. of India Undertaking, Ministry of Textiles)
Wegmans Business Park, 4th Floor, Tower-1, Sector Knowledge Park-III,
Surajpur - Kasna Main Road,
Greater Noida – 201 306

No. NHDC/HR/OO/2023/115 Dt. 11.10.2023

OFFICE ORDER

The Board of Directors in its 178th Meeting held on 15.09.2023 have approved Provisional Risk Management Policy of the Corporation along with SoP which is enclosed herewith as Annexure -A. However, it is subject to ratification again as and when Board is complete on appointment of Independent Directors.

The said Provisional Risk Management Policy and SoP shall come into force with immediate effect.

This issues with the approval of Competent Authority.

For and on behalf of NHDC Ltd.

(Assistant Manager/HR)

Copy to:-

I. MD Office.
II. GM & Dy.GM(F&A)
III. All Regional/Branch Offices
IV. Notice Board
V. ERP Dash Board & NHDC Website
VI. HR
VII. Company Secretary/NHDC
VIII. Office Order file

Annexure- A

Date of Approval by Board: 15.09.2023

Effective from:11.10.2023

RISK MANAGEMENT POLICY

NATIONAL HANDLOOM DEVELOPMENT CORPORATION LIMITED

1. PREAMBLE

Risk management is attempting to identify and then manage the potential threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Risk Management is a key aspect of the "Corporate Governance Principles and Code of Conduct" which aims to improvise the governance practices across the activities of National Handloom Development Corporation Limited. This document lays down the framework of Risk Management and defines the policy for the same. It seeks to identify risks inherent in business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

2. Regulatory framework:

Corporation is required to comply with the various regulatory requirements with respect to Risk Management approach adopted by it. Some of the statutory provisions are:

(i) Provisions of the Section 134(3) of the Companies Act, 2013

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

(ii) Provisions of the Section 177(4) of the Companies Act, 2013

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.

(iii) Provisions of Section 149(8) of the Companies Act, 2013

The independent directors shall:

a) 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.

b) Satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

(iv) **DPE Guidelines:**

Chapter-7 of guidelines on Corporate Governance for Central Public Sector Enterprises (CPSEs) issued by DPE also provides that the company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

3. OBJECTIVE

The Company is prone to inherent business risks. The main objective of this policy is to create and protect shareholder value by minimizing threats or losses and identifying and maximizing opportunities and to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, this Policy is being applied in order to ensure that effective management of risks is an integral part of every employee's job and establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

The objectives of this policy include:

1. Providing a framework that enables future activities to take place in a consistent and controlled manner.
2. Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats.
3. Contributing towards more efficient use/ allocation of the resources within the organization.
4. Protecting and enhancing assets and company image.
5. Reducing volatility in various areas of the business.
6. Developing and supporting people and knowledge base of the organization.
7. Optimizing operational efficiency.

This document provides an insight into the risk management framework for the Company.

4. IMPLEMENTATIONS:

Head of Departments / all Managerial personnel shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and shall report to Management for any material risks and discrepancy arising in the system. All the Regional Heads including finance and accounts (F&A) Incharge at regional level shall be responsible for implementation of the risk management system at their respective regions. Managing Director may call an internal review meeting with Head of Departments including Regional Incharges as and when necessity arises.

The Audit Committee shall periodically do the evaluation of risk management system and shall take such matters immediately to the Board in case of necessity otherwise shall apprise to the Board annually on the actions taken by them.

5. RISK GOVERNANCE:

a. Risk Governance Structure

A well-defined risk governance structure serves to communicate the approach of risk management throughout the organization by establishing clear allocation of roles and responsibilities for the management of risks on a day to day basis. In order to develop and implement a Risk Management framework, a Risk Assessment Committee has been constituted.

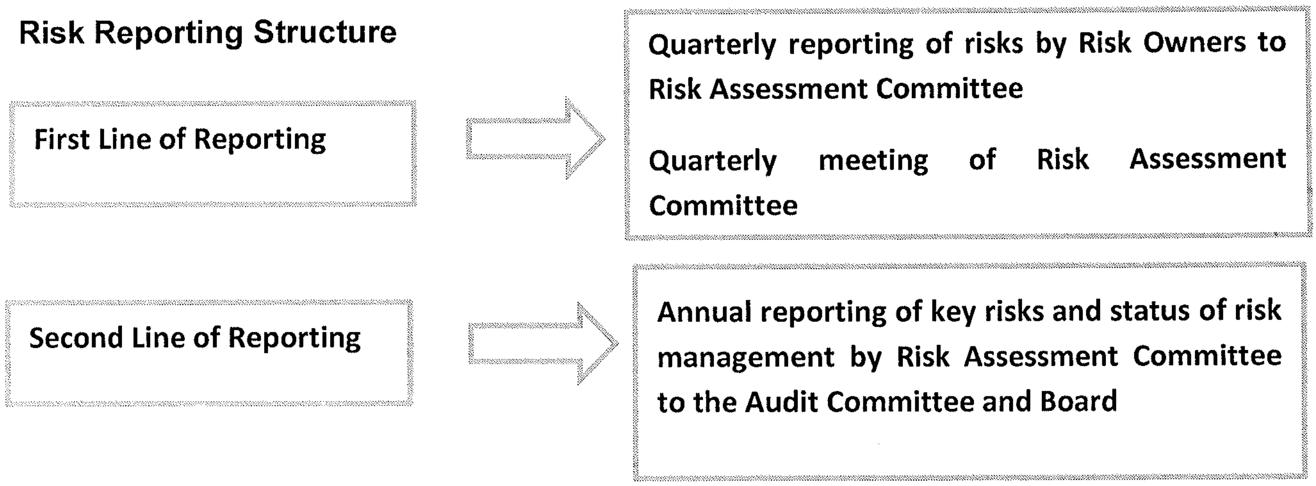
Risk owners shall be Section/Department Heads of respective function who shall identify and assess the key risks, ensure risks are managed on a daily basis, ensure risk register are maintained and updated on a monthly basis, and report the risks along with assessment and mitigation of their respective function to the Risk Assessment Committee.

The Risk Assessment Committee shall comprise of the following members –

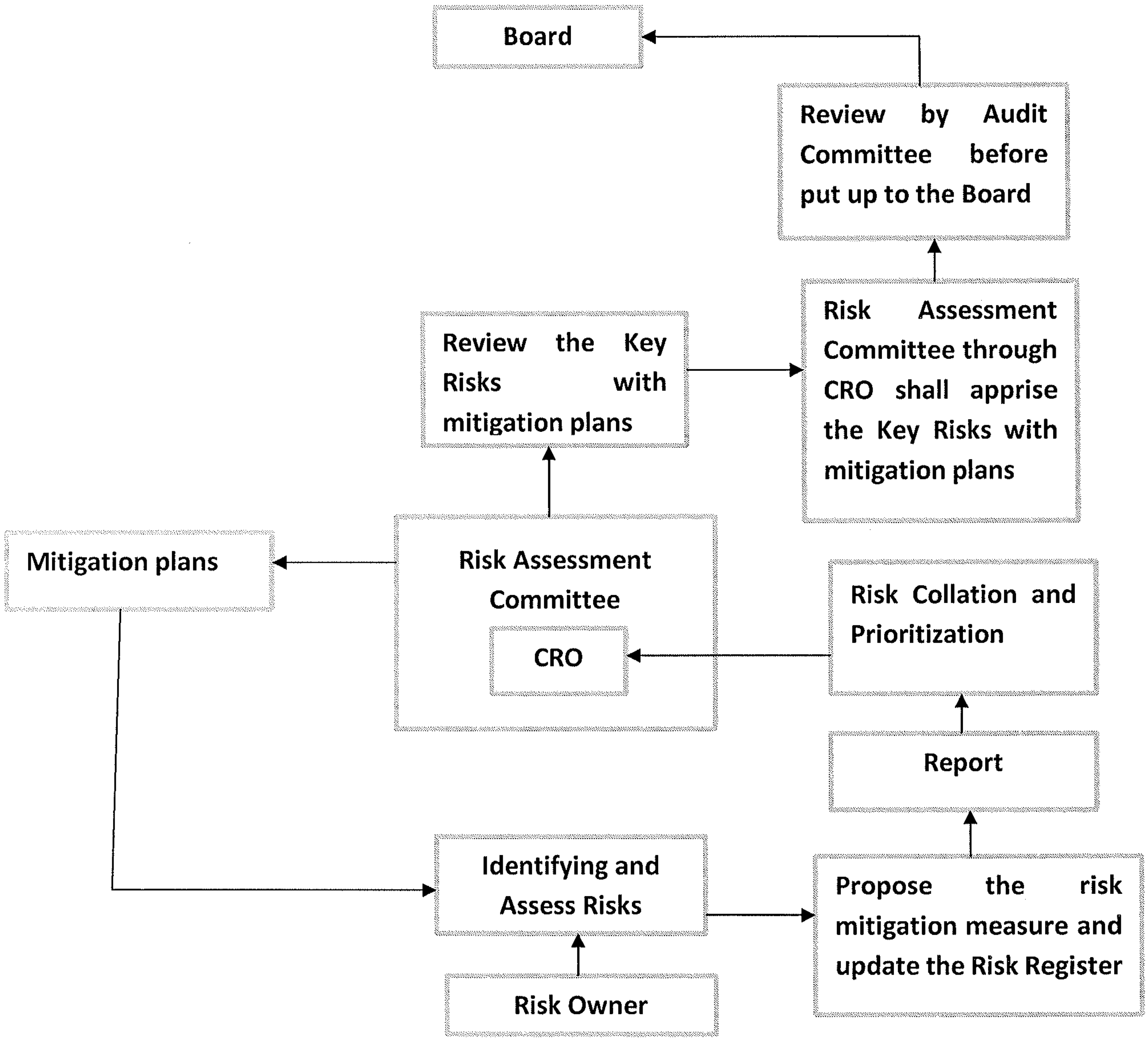
Risk Assessment Committee		
	At Regional Offices	**At Head Office**
Chief Risk Officer	Regional Incharge	GM
Member	Commercial Head at RO	DGM (F&A)
Member	F&A Head at RO	DGM (Comm)

Risk Assessment Committee shall ensure establishing and managing the implementation of Risk Management Policy, review the organisation's risk profile periodically and ensure that effective risk mitigation plans are put in place and the results are evaluated and acted upon, report the key business risks faced by the organisation and their mitigation plans to the Audit Committee and Board.

b. Risk Reporting Structure



c. Risk Reporting and Escalation Process



The Board shall annually review the effectiveness of this policy and the risk management systems in place.

d. Audits - Internal Audit / Concurrent Audit.

Internal audit / Concurrent Audit shall cover reviewing compliance with systems, procedures and internal controls. The internal audit report shall review adequacy and efficacy of existing internal controls in all areas including regulatory compliance, operations, chartering, purchase, human resource and management, administration, I.T., accounts and budgetary and to suggest measures to strengthen them further.

The observations and recommendations should be reviewed and discussed with top management and the implementation status should be reviewed regularly. These observations, as and when received, may be presented to the Audit committee.

6. RISK MANAGEMENT FRAMEWORK

Business Plan including Capital Expenditure and Fund Flow Statement for each segment together with SWOT analysis, Assets, Accounts Receivables and Payables as well as Regulatory Regime applicable shall be reviewed in the light of the material risks identified. Efforts shall be taken to mitigate the risk identified during the Internal Review Meeting based on action plan approved by the Managing Director of the Company. However, in case the risk identified is material in nature then the same shall be informed to the Audit Committee and Board for approving Action plan.

Material risk means the risk having effect of more than 10% of the estimated turnover of the Company during the financial year. Through deliberations of the Audit Committee a comprehensive plan of action to deal with the risks shall be developed and guidelines flowing from such plan shall be communicated to the employees concerned for mitigation of the risks. The Action Plan and guidelines decided by the Audit Committee shall be approved by the Board before communication to the personnel for implementation.

The guidelines shall include prescription on Risk Treatment. It shall consider prioritizing risk control actions in terms of their potential to benefit the organization. Risk treatment includes risk control/mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc. for:

a) Effective and efficient operations

b) Effective Internal Controls

c) Compliance with laws and regulations

Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

7. RISK IDENTIFICATION & ANALYSIS

Risk Identification is obligatory on all departmental and Regional heads including F&A incharge at regional level that with the inputs from their team members are required to report the material risks to the Management of the Company along with their considered views and recommendations for risk mitigation. Analysis of all the risks thus identified shall be carried out by Management of the Company through participation of the departmental and Regional heads including F&A incharge at regional level of the Company. The following steps to be taken:

1. Risk identification

To identify organization's exposure to uncertainty, risk may be classified in the following:

A) **Financial Performance Risks**
B) **Stakeholder Relationship Risks**
C) **Risks to Safety, Environment and Reliability**

A) **Financial Performance Risks:**

(i) Market Risk

Adverse financial impacts may be due to:

□ Earnings volatility;

□ Cost volatility including fuel prices, interest rates and other operating costs;

(ii) Credit Risk

Credit risk denotes the volatility of losses on account of credit exposures. It includes the risks in settlement of dues/outstanding by dealers and customers and provisions of bad and doubtful debts. Credit Risk put a significant impact on cash flows of the Company.

(iii) Business Operational Risk:

The business operational risk is associated with economic and market conditions and changes in policies of government, cut throat competitions at local as well as at international level, introduction of new players in textile markets, labour turnover, power, logistics, demand & supply risks, latest technologies, techniques, Un-interrupted availability of raw material at competitive prices so as to avoid production loss, maintenance of quality and to harmonize production for completing the orders in time as well.

Fluctuations in yarn prices in market, hence impact to pricing/costing of particular product(s) and its blend(s). New designs, innovative textile products, developing new customers residing in different countries carrying lots of choice, ideas may also constitute operational risk for the Company.

(iv) Legal Risk:

Legal Risk is defined as the risk of loss that arises from an unexpected application of law or regulation or change in any Policy / Rules / Regulations / tariff of Central/State Government or local body. Legal risk also originates from court disputes / litigations due to breach of contractual and legal obligations and consequently fines/ penalties imposed by certain Regulatory Bodies / Authorities. 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 with the enactment of any new Law/new Taxation Structure and every levy in whatever form or in whatever nature may put significant effect on earnings of the Company.

(v) Geographic and Environment Risk

This is a risk to an investment in a specific disturbed geographic area. The disturbance may be at local level or may be at national/international level. Geographic Risk may also occur when the company sends a consignment through export to a place/country which has suffered natural disaster like declared war, earthquake, fire, flood or force majure. The safety of environment is also important for us because of its ecological, economic or social significance to an ecosystem. If environment get impact / suffer more due to highly polluting nature or due to violation of any environmental law/norms by the industry/business then it may get adverse remarks from the Regulator / Statutory Authority or may have to face penal provisions as well as implications. Therefore the Company is also exposed to environmental risk.

(vi) Insurance Risk

B) **Stakeholder Relationship Risks**:

(i) Customer Satisfaction & Reputation Risk

(ii) Banking Relationships Risk

(iii) Employee Engagement Risk

(iv) Government Policy, Regulation and Compliance Risk

(v) Investor Relations Risk

C) Risks to Safety, Environment and Reliability:

(i) Safety Risk

(ii) Environmental Risk

2. Risk Description & Analysis

In order to identify and assess material business risks, the Company defines risks and prepares risk profiles in light of its business plans, strategies and promotion and development of Handloom Sector. This involves providing an overview of each material risk, making an assessment of the risk level and preparing action plans to address and manage the risk. Risks may be structured as follows for the purpose of their identification and evaluation:

Name of Risk	Analysis
Scope of Risk	Qualitative description of events with size, type, number etc.,
Nature of Risk	
Quantification of Risk	Significance & Probability
Risk Tolerance/Appetite	Loss Potential & Financial impact of Risk
Risk Treatment and Control Mechanism	Primary Means Level of Confidence Monitoring Of Review.
Potential Action for Improvement	Recommendations to Reduce Risk
Strategy and Policy Development	Identification of Function responsible to develop strategy & Policy

3. Risk Evaluation

After risk analysis, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks and whether each specific risk to be accepted or treated to support promotion and development of Handloom sector.

4. Risk Estimation

Can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences.

5. Risk Reporting

Most of the internal reporting and day to day interactions among management, departmental heads and Regional heads including F&A incharge at regional level ensures that management is aware of key risks and unusual incidents or loss events. The ongoing business success of the Company depends to a great extent on risk awareness and the ability to manage risks. This requires transparency of all risk taking activities and thus an effective risk reporting system.

6. Risk Treatment

Risk Treatment includes the process of selecting and implementing measures to mitigate risks and to prioritize risk control actions in terms of their potential to benefit the organization. Risk treatment includes risk control/mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc.

a) **Tolerate/Accept the Risk:** This strategy is adopted when impact of risk is minor. In this case risk is accepted as cost of mitigating the risk can be high. However, these risks are reviewed periodically to check their impact remains low else appropriate controls are used.

b) **Terminate:** In this case the activity, technology or task which involves risks is not used/conducted to eliminate the associated risk.

c) **Transfer:** In this approach the associated risks are shared with the trading partners and vendors etc. e.g. outsourcing IT services to IT service Providers who have better capabilities to manage IT related risks. Insurance is another example of sharing risks.

d) **Treat:** In this case, organizations use appropriate controls to treat the risks e.g. using an antivirus software is a control for risks related to virus, monitoring debt recovery at senior level at regular intervals for speedy recovery is another example.

e) **Turn Back:** This strategy is adopted when impact of risk is expected to be very low or chances of occurring risk are minimum in such cases management decides to ignore the risk .Eg. Risk of damage to factory by earthquake may be next to impossible in Bangalore thus it may not form part of risk potential areas and can be simply ignored.

Risk treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

8. EFFECTIVE DATE :

This policy is applicable in the Company with effect from 11.10.2023.

9. REVIEW AND AMENDMENT:

The Audit Committee of the Board of Directors of the Company periodically reviews the existence and functioning of Risk Management Policy. The Board of Directors after considering the recommendations of Audit Committee are empowered to amend this policy in whole or in part, at any time consistent with requirements of applicable laws, rules and regulations.

*Enclosed Risk Management Procedure (SOP) shall form part and parcel of this policy and becomes applicable from the date of notification of the policy.

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Risk Management Procedure (SOP)

Purpose of this document –

This document has been written to act as a procedure to identify, rate and review risks within the Organisation. This SOP works in conjunction with and supports the Risk Management Policy of the Corporation.

Scope of this SOP – This document refers to all employees of the Corporation.

Competencies required – No specific competencies are required to follow this procedure however it is recommended that the Risk Management Policy are read and understood.

Risk Owner – Risk owner is the person with the accountability and authority to manage a Risk. Risk owners shall be nominated by the Risk Assessment Committee at department level.

Responsibilities – All employees are accountable for actively applying the principles of risk management within their areas of responsibility and fostering a risk-aware culture. More specifically, Employees are responsible for:

➢ Report to their immediate leader or supervisor (Risk Owner), any real or perceived risks that become apparent and may significantly affect the Company's: Commercial viability; Profitability; Assets; Business continuity; Customers; Regulatory and/or legal obligations; Reputation; and/or People and/ or their safety.

➢ Report to their immediate leader or supervisor (Risk Owner), any real or perceived risks that company's operations may significantly affect the broader: Environment and/or Community.

➢ Look for opportunities to improve operational efficiencies and optimize outcomes.

RISK MANAGEMENT PROCEDURE:

1. Risk management is a systematic process, to be effective it needs to be holistically applied strategically and operationally to all systems, processes and services. It should include (but not be limited to) the following factors:

   - Performance, Environment, Finance, Health and Safety, Information and Communication Technologies, Information Governance, Operational Issues.

   The risk management procedure is based on the following key steps:

   - **O**bjectives - establish the context of the risk against one or more of the corporate objectives (what is the cause and effect against these objectives).
   - **R**isks - risk identification and assessment (analyse, evaluate and prioritise).
   - **C**ontrols - what controls are already in place or can be introduced with immediate effect to reduce the likelihood of this risk happening (including actions for future controls).
   - **A**ssurance - monitoring and reviewing of the situation on a regular basis.

2. Identify the Risk

We can't resolve a risk if we don't know what it is. There are many ways to identify risk. In this step, relevant data is collected and entered in a risk register.

- **Brainstorming:** In first step brainstorming at department level with team, colleagues or stakeholders will be exercised. Find the individuals with relevant experience and set up interviews/discussion to gather the information needed to both identify and resolve the risks. Think of the many things that can go wrong. The same is noted. Any historical data may also be considered. A list of potential risks will be prepared.
- **Root Cause:** Make sure the risks are rooted in the cause of a problem. Basically, drill down to the root cause to see if the risk is one that will have the kind of impact on organisation that needs identifying. Risk breakdown structure process may be used to weed out risks from non-risks.

3. Risk Assessment

3.1 Risk Owner shall collate the risk data, identify and prioritize the Risks. Risk Owner shall assess the risk and recommend a mitigation strategy to Risk Assessment Committee. The process of assessment looks at identified all the risks, evaluating them and prioritising them as high (risks requiring immediate action), medium and low risks. After risks are identified, they need to be assessed on the basis of their potential severity of loss to the organisation. This is also about deciding whether a particular risk is acceptable or not, taking into account:

- the controls already in place;
- the consequence of managing risks or leaving them untreated; and
- benefits and opportunities presented by the risks.

3.2 Risk Owner must ensure that they have assessed all areas of their department/section and roles. All the employees shall Co-operate with the Risk Owner for collection of data, analysing and assessing data at department level.

In order to identify and assess material business risks, the Company defines risks and prepares risk profiles in light of its business plans, strategies and promotion and development of Handloom Sector. This involves providing an overview of each material risk, making an assessment of the risk level and preparing action plans to address and manage the risk. Risks may be structured as follows for the purpose of their identification and evaluation:

Name of Risk	Analysis
Scope of Risk	Qualitative description of events with size, type, number etc.,
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Risk Treatment and Control Mechanism	Primary Means Level of Confidence Monitoring Of Review.
Potential Action for Improvement	Recommendations to Reduce Risk
Strategy and Policy Development	Identification of Function responsible to develop strategy & Policy

3.3 The key questions to consider in analysing any risk on a general risk assessment are:

1. What is the cause of the risk:
   - What can happen? - What has happened?
   - How can it happen? - How did it happen?
   - Who could it happen to? - Who did it happen to?
   - How could risks occur? - How did risk occur?
2. What is/could be the effect/s of the risk?
3. What is the resulting consequence to the organisation against its strategic objectives?
4. What is the likelihood of the risk occurring/reoccurring?
5. How could the consequence and or likelihood be reduced?
   - Are there any controls already in place to manage the risk?
   - Do these controls have any gaps?
   - What actions can be carried out to put more controls in place or close the current gaps?

3.4 A standard Risk Matrix is used across the Corporation to identify a risks score. This is calculated using two factors, the consequence of a risk multiplied by the likelihood of a risk occurring/reoccurring.

IMPACT						
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
	0	1	2	3	4	5
	Likelihood of occurrence					

Risk Matrix

3.5 Risk score shall be assigned by the Risk Assessment Committee and shall be utilize for review of risk identified and mitigation plan implemented therefore.

4. Reviewing Risks on the Matrix

4.1 It takes time to plan and implement change. A robust monitoring and review process is essential to ensure action(s) are followed through to completion and that priorities are re-assessed. It is crucial when undertaking these assessments and reviews that details of when these were carried out and by whom are recorded. The Matrix is a tool that facilitates these requirements.

4.2 Continuous monitoring and reviewing of risks ensures that new risks can be detected and managed, action(s) are implemented, and managers and stakeholders are kept informed. The availability of regular information on risks can assist in identifying themes and trends, likely trouble spots or other changes that have arisen.

4.3 The current risk score will determine how often this risk should be reviewed.

At Head Office Level:

Current Score	Matrix Rating	Expected level of Management	Review period
15 to 25	Red	GM and DGM	3 Monthly or sooner if new or significant information is forthcoming.
9 to 14	Orange	Chief Manager & Sr. Manager	3 Monthly
5 to 8	Yellow	Manager & Deputy Manager	4 Monthly
1 to 4	Green	Asst. Manager & Below	6 Monthly

At Regional Office Level:

Current Score	Matrix Rating	Expected level of Management	Review period
15 to 25	Red	GM, DGM & Regional Incharge	3 Monthly or sooner if new or significant information is forthcoming.
9 to 14	Orange	P & S Committee	3 Monthly
5 to 8	Yellow	Risk Management Committee as decided by RO Incharge	4 Monthly
1 to 4	Green	Risk Management Committee as decided by RO Incharge	6 Monthly

5. Respond to the Risk (Risk Management)

Risk Assessment Committee shall consider the risk identified and recommendation of mitigation strategy by Risk Owner. A risk mitigation strategy is simply a contingency plan to minimize the impact of a project risk. After prioritizing the risks, risk owner shall discuss at department level to plan/adopt any one of the methods of risk treatment as described in Risk Management Policy to resolve the risk. Upon selection of risk management method/strategy by the Risk Assessment Committee, an effective risk management plan should be prepared, recorded precisely and approved by the appropriate level of management before implementation.

6. Implementation of Plan, Monitoring and Review of Plan

As we have plan in place, it's important to follow all the planned methods for mitigating the effect of the risks and keep a record of your progress or where there may be gaps. It's critical

to train management and employees appropriately so they are aware of the plan and know what is needed to execute it.
Action taken to resolve the risk shall be monitored by the risk owner. One or more meeting may be called to manage the risks.

Lastly, changes in the plan may be needed based on practices, losses, and experiences. Risk analysis and management plans should be updated regularly to:

- evaluate if the selected security controls are still applicable and effective
- evaluate the possible risk level changes in the business environment

7. Communication, Consultation & Reporting

7.1 Effective communication is key to ensuring risks are managed appropriately. Stakeholders should be involved and consulted throughout the process.

7.2 Periodical meetings at branch level/regional level shall be called to discuss about identified risks, assessment thereof and measures adopted to mitigate risk if any.

7.3 Material risk found, if any, shall be reported by the Risk Assessment Committee to the Sr. Management at Head Office immediately. Management shall apprise the Audit Committee about such incident. Audit Committee shall review the material risk before put to the Board. A proper mitigation plan as suggested by Audit Committee/Board shall be communicated to concern department/branch/Ro for further implementation.

7.4 Respective Risk register with their mitigation plan shall be maintained by Risk owners and the office of CRO shall consolidate the same and present it to Risk Assessment Committee and the same shall be reviewed and updated as per the policy guidelines. The key risks with their mitigation measures identified and reviewed for the organization are defined in the Risk Register.