Ahluwalia Contracts (India) Ltd – Risk Management Policy

Introduction

Ahluwalia Contracts (India) Ltd ("ACIL" or the "Company") is one of India's leading Companies in the Engineering, Procurement and Construction (EPC), construction sub-sector with over 40 years of experience. ACIL have a track record of delivering iconic and challenging turnkey projects in time bound manner while maintaining the quality. The Company is a trusted player in the Construction and Engineering sector primarily in commercial buildings, hotels, hospitals, educational institutions, industrial plants, residential projects, townships, BOT projects, urban infrastructure, etc.

The Company's competencies in the field are backed by its skilled manpower resources, technical knowledge and experience, investments in advance construction and IT technologies, and strong linkage with channel partners. This expertise has enabled the Company to move forward in the value chain to target more Engineering, Procurement and Construction (EPC) projects.

Risk Management Policy Statement

In the current dynamic business environment, ACIL being in the Construction sector, is exposed to a plethora of risks from strategic, regulatory, alliance (vendors, subcontractors, etc.), operational, execution and financial perspectives. To minimize the adverse consequence of these risks on organisation's objectives and to remain a competitive and sustainable organisation, the Company has framed this Risk Management Policy (the "Policy").

Through the establishment of this Policy, the Company will remain committed to high standards of business conduct and will realize following benefits:

a. Ensure sustainable business growth and stability;
b. Enhance pro-active risk management;
c. Facilitate risk-based decision making;
d. Improve governance and accountability;
e. Enhance credibility with wide range of stakeholders (e.g. Investors, Employees, Government, Regulators, Society, etc.);
f. Protect and enhance stakeholder values;
g. Effective use of resources and protect Company's assets;
h. Ensure regulatory compliance

Objectives of the Policy

Risk Management Policy helps organizations to put in place effective frameworks for taking informed decisions about risks and it also creates and protects shareholder value by minimizing threats or losses and identifying and maximizing opportunities.
To achieve the key objective, the Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

The specific objectives of the Risk Management Policy are:

A. To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, monitored, appropriately mitigated and reported.
B. To establish a framework for company's risk management process to ensure consistency and transparency in methodology, assessment and management processes that enables activities to take place in a consistent and controlled manner.
C. To improve decision making, planning, and prioritizing by comprehensive and structured understanding of business activities, volatility, and opportunities / threats.
D. To ensure systematic and uniform assessment of risk related with each project and more efficient use / allocation of the resources within the organization.
E. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
F. To assure business growth with financial stability.

Regulatory Context

Companies Act, 2013

Section 134(3)(n) of the Companies Act, 2013 requires the Board of Directors' Report to 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 of Directors (the "Board") may threaten the existence of the Company.

Section 177 (4)(vii) of the Companies Act, 2013, requires Audit Committee to act in accordance with the terms of reference specified in writing by the Board which shall include evaluation of internal financial controls and risk management systems.

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Listing Regulation")

As per regulation 17(9)(b) of the Listing Regulation, the board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.

As per regulation 21 of the Listing Regulation, the Board of top 500 listed entities, determined on the basis of market capitalization, as at the end of the immediate previous financial year, shall constitute a Risk Management Committee.

In compliance of above regulations and to mitigate and manage risk at ACIL, the Risk Management Policy has been formulated by the Board.

Scope and Applicability of the Policy

The policy guidelines are devised in context of the organization's growth objectives, business profile envisaged and new business endeavours including new projects that may be necessary to achieve these goals and the emerging global standards and leading practices amongst comparable organizations.

This policy is meant to ensure continuity of business and protection of interests of the shareholders and other stakeholders and thus covers all the activities within the Company and events outside the company which have a bearing on the company's business. The policy shall operate in conjunction with other business and operating/administrative policies.

The Scope of the Policy shall cover:

i. All functions, departments, projects of ACIL;

ii. All the activities within the Company and events outside the Company which shall have an impact on any part of the Company.

Applicability of the Policy

The Risk Management Policy is applicable to the Registered / Corporate Office, RO /offices / project / other offices and all the Construction Projects of ACIL.

Access and changes to Risk Management policy

Risk management policy shall be accessible to all personnel in risk organization structure of the Company.

Any changes to this policy shall be approved by Risk Management Committee with intimation to the Audit Committee.

Definitions

Risk

Risk is any uncertain future situation or event, which could influence the achievement of Company's objectives or realization of opportunities, including strategic, operation, financial and compliance objectives. It is the product of probability of occurrence of an event and the financial impact of such occurrence to an enterprise.

- **Strategic Risk** is associated with the primary long-term purpose, objectives, and direction of the business.
- **Operational Risk** is associated with the on-going, day-to-day operations of the enterprise.
- **Financial Risk** are related specifically to the processes, techniques and instruments utilized to manage the finances of the enterprise, as well as those processes involved in sustaining effective financial relationships with third parties.
- **Knowledge Risk** are associated with the management and protection of knowledge and information within the enterprise.

Risk Management

Risk Management is a continuous process of systematically identifying, quantifying, filtering and managing all risks and opportunities that can affect achievement of company's strategic and financial goals. Risk management includes risk identification, risk assessment, risk treatment, risk mitigation, risk acceptance, risk communication and risk reporting.

Risk Appetite

Risk Appetite is an expression of the amount of risk, on broad level, an organization is willing to accept in pursuit of its business objectives and goals. It can vary over time and from work area to work area. If the Company's risk appetite is clearly articulated to staff, they can take this into account while taking their decisions.

Key Principles of Risk Management

The following key principle outlines the Company's approach to risk management and internal control:

a. All business decisions will be made with the prior information and acceptance of risk involved;
b. The Policy shall provide for the enhancement and protection of business value from uncertainties and consequent losses;
c. All employees of the Company shall be made aware of risks in their respective domains and their mitigation measures, encouraging good risk management practice within their areas of work and take decisions, as authorised and work as per the Risk Management Policy approved and adopted.
d. The risk mitigation measures adopted by the Company shall be effective in the long- term and to the extent possible and feasible, be embedded in the business processes of the Company;
e. Risk tolerance levels will be regularly reviewed and decided, based upon the Company's strategy;
f. The occurrence, progress and status of all risks will be promptly reported, and appropriate action be taken thereof.

Key Roles and Responsibilities

a. Responsibility of the Board of Directors

The Board of Directors (the "Board") shall be responsible for development and implementation of Risk Management Policy for the Company including identification of elements of risk, if any, which the opinion of the Board may jeopardize the existence of the Company.

The Board is responsible for reviewing and appraising / ratifying the risk management structure, processes and guidelines which are developed and maintained by various Committees and Senior Management. The Committees or Management may also refer particular issues to the Board for final consideration and direction.

b. Responsibility of the Audit Committee

The Audit Committee shall act in accordance with the terms of reference specified in writing by the Board including evaluation of internal controls and risk management systems.

As per Part C of Schedule II of the Corporate Governance of the Listing Agreement, the role of the Audit Committee shall include evaluation of the Company's financial controls and risk management systems.

c. Responsibilities of Independent Directors

As per Schedule IV (Part II-(4)) of the Companies Act, 2013, the Independent Directors shall satisfy themselves on the integrity of financial information and that financial control and the systems of risk management are robust and defensible.

d. Responsibilities of Senior Management

The Company's Senior Management is responsible for designing and implementing the Risk Management Policy and internal control systems which identifies material risks for the Company and aim to provide the Company with warnings of risks before they escalate. Senior Management must implement the action plans developed to address material business risks across the Company and individual projects.

Senior Management should regularly monitor and evaluate the effectiveness of the action plans and the performance of employees in implementing the action plans, as appropriate. In addition, Senior Management should promote and monitor the culture of risk management within the Company and compliance with the internal risk control systems and processes by employees. Senior Management should report regularly to the Risk Management Committee regarding the status and effectiveness of the risk management program.

e. Responsibilities of Employees

All employees are responsible for implementing, managing, and monitoring action plans with respect to material business risks, as appropriate.

Risk Governance

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.

Risk Governance Structure shall be as below:

Board of Directors

Risk Management Committee

Chief Risk Officer

Risk Assessment Team

Project Head Risk Coordinator	Finance Head Risk Coordinator	PMC Head Risk Coordinator	Mechanical Head Risk Coordinator	Stores Head Risk Coordinator	Human Resource Head Risk Coordinator
Risk Owner	Risk Owner	Risk Owner	Risk Owner	Risk Owner	Risk Owner

Risk Management Committee

In order to develop and implement a Risk Management framework, a Risk Management Committee to be supported by Risk Cell shall be constituted. Risk Management Committee shall be constituted by the Company as per the provisions of regulation 21 of the Listing Regulation and shall be responsible for ensuring that the Risk Management policy is being followed and is effectively contributing to early identification of risks and proper mitigation process.

The Risk Management Committee shall be the apex body to approve the identified risks, its mitigation plan and the future course of action in this regard.

Risk Assessment Team shall identify the key risks and report them to the Risk Management Committee which shall ensure that the risk management activities are undertaken as per this policy.

The Risk Assessment Team shall comprise of heads of key departments (Risk Coordinators), reporting to Risk Management Committee through Chief Risk Officer.

The Risk Management Committee has the key role of aligning the strategic objectives with the organization's operations to achieve the objectives.

Role and Responsibilities of the Risk Management Committee

The Risk Management Committee is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes, and provides regular reports to the Board of Directors on the effectiveness of the risk management program in identifying and addressing material business risks. To achieve this, the Committee is responsible for:

- Identification, evaluation, and mitigation of operational, strategic, financial, knowledge and various external environment risks.
- Regularly reviewing and updating the current list of material business risks and reporting to the Board on the status of material business risks.
- Monitor, approve and review the Risk Management Policies / plans and associated practices of the Company.
- Review and approve risk disclosure statements in any public documents or disclosures.
- Providing management and employees with the necessary tools and resources to identify and manage risks
- Ensuring compliance with regulatory requirements and best practices as per the provisions of the Companies Act, 2013, Listing Regulations and Corporate Governance Guidelines.
- Ensure that appropriate systems are in place to manage the identified risks, so that the organizations assets and reputation are suitably protected.
- Ensure that responsibility and authorities are clearly defined, and adequate resources are assigned to implement the Risk Management Policy.
- Review the reports from the Risk Assessment Team and take remedial action.

Chief Risk Officer

The Chief Risk Officer (CRO) shall be the head of the Legal and Secretarial Department of the Company and to be nominated by Board.

CRO will coordinate with the Risk Coordinators and the members of the Risk Management Committee to ensure effective implementation of Risk Management Policy.

Roles and Responsibilities of the CRO:

- Ensuring implementation of the Risk Management Policy pursuant to the organization's risk management vision.
- To devise and carryout independent self-review to ensure compliance with the Risk Management Policy.
- Convene the Risk Assessment Team meetings and facilitate discussions amongst the team to fulfill its responsibilities.
- Coordinate with all the Risk Coordinators to compile the status of risks and mitigation measures taken.
- Communicating with the Risk Management Committee regarding the status of risk management and reporting the key risks faced by the organization.
- Any other task that may be necessary or expedient in identifying, evaluating, and managing the risks.

Risk Cell of CRO

The Risk Cell located at the Corporate Office shall be a team of members comprising of one Senior Manager (to be nominated from the existing staff) with one or two additional members who shall report directly to the CRO.

Roles and Responsibilities of the Risk Cell

- Assist the CRO in organizing Risk Assessment Team meetings.
- Compile the status of risks and mitigation measures taken as reported by the Risk Coordinators.
- Record the key risks and their mitigation plans in the Risk Register as agreed by the Risk Assessment Team.
- Monitor and evaluate the mitigation plan for the risks identified in the risk register and place it for review of Risk Management Committee in the meeting
- Risk Reporting

The Risk Register shall contain the following:

a. Function/ department wise record of key risks
b. Risk Category wise record of key risks
c. Mitigation measures / Treatment plans for the key risks

Risk Assessment Team

The Risk Assessment Team shall have the key role of identifying the key risks, suggest mitigation measures, monitoring and supervising the implementation of the Risk Management Policy and maintain wide view of the key risks faced by the organization.

Risk Assessment Team shall comprise of the Heads of all the key departments within the organization and may be referred as the Risk Coordinators.

Roles and Responsibilities of the Risk Coordinators

- Identify, evaluate, and assess the key risks of their respective areas and suggest the mitigation measures to the CRO.
- Ensure that effective risk mitigation plans are in place and the results are evaluated and acted upon.
- Ensure that the Risk Management Committee is informed about any new/emerging risks faced by the organization in case of exigencies/emergent conditions.
- Assist the Risk Management Committee in overseeing and monitoring the development and implementation of the Risk Management Policy.
- Prioritize the risks reported according to their risk ratings and assist the Risk Management Committee in decision making for risk management responses for identified key risks.
- Define such numbers of Risk Owners as deemed appropriate to facilitate and support them in risk management exercise.
- Identifying future risk, evaluate the criticality of the risk and formulate the steps of mitigation.
- In case of any serious risk identified, the same will be put up to Risk Management Committee immediately, i.e. within 24 hours.
- Risk Coordinator (the Project Head) would undertake the risk assessment of each Project to be undertaken by the Company and shall report his / her assessment of the Project to the Risk Management Committee.

Risk Owners

The Risk Owners shall be the nominated representative (from existing employees) not below the rank of Manager of respective departments. The Risk Coordinators will nominate such numbers of Risk Owners amongst officials working under him/her, as he / she may deems appropriate.

The Risk Owners shall have the key role of reviewing and assessing the risks identified by the Risk Coordinators and to develop and monitor the mitigation measures for the identified risks.

Role and Responsibilities of Risk Coordinators:

- Review and assess the risks reported by the Risk Coordinators;
- Identify any new risks relevant to their respective areas.
- Develop mitigation measures and action plan for all the identified risks.
- Ensure implementation of mitigation plans by coordinating with the respective departments.
- Provide status of risks and mitigation measures taken, to the CRO for reporting to the Risk Management Committee.

Risk Management Process

Risk Management is a continuous process which shall enable the organization to identify, assess and mitigate the risks. It is an organized methodology for:

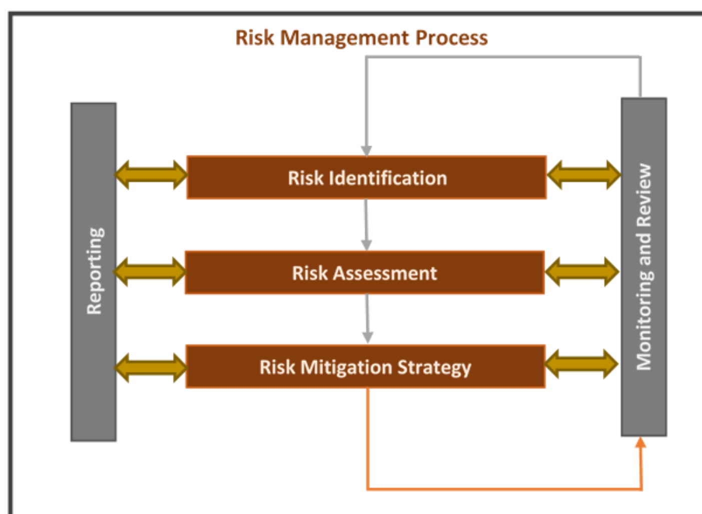
a. continuously identifying and measuring the unknowns;
b. developing mitigation options;
c. selecting, planning, and implementing appropriate risk mitigations; and
d. tracking the implementation to ensure successful risk reduction.

Effective risk management depends on risk management planning, early identification and analysis of risks, early implementation of corrective actions, continuous monitoring, reassessment, communication, documentation and coordination.

The primary objective(s) of establishing a Risk Management Process is to ensure that:

- Risks faced by the organization shall be identified and recorded in the Risk Register, enabling the top management to take a comprehensive view of the same;
- Risks identified shall be assessed, mitigated, monitored, and reviewed on an ongoing basis.

The Risk Management Process is depicted below:



Risk Identification

Risk identification involves continuous identification of events that may have negative consequences on the Company's ability to achieve goals. It requires an in-depth knowledge of the organization, the external environment in which the Company operates, as well as the internal context of the Company.

Risk Identification involves development of a sound understanding of its strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

As part of risk identification, a comprehensive list of risks are prepared based on events (historical and anticipated) which may prevent, degrade, accelerate, or delay the achievement of objectives. These risks are classified by the Company as Risk Categories. An illustrative list of Risk Categories has been appended in Annexure 1 of this Policy.

Identification of risks, risk events and their relationship are defined based on discussion with the Risk Owners and secondary analysis, which may involve the following:

- To consider the opportunities opened up by the current activity (such as the new Project) as that may also clarify where risk lies;
- To aim to identify those risks that would have a significant impact on the Company.
- To ensure that everyone involved in a project has a sound understanding of the mission, aims and objectives and plans for execution of the project.
- To check that there are realistic plans for how the Company would deliver the outcomes sought from a project; check that there is shared understanding of the risks, whilst recognising that clients' and Company's perspectives on risk will not be the same.

A. Risk Assessment

Risk assessment is the process of risk prioritization or profiling. It allows an entity to consider the extent to which potential events have an impact on achievement of objectives. Likelihood and Impact of risk events have been assessed for the purpose of analysing the criticality. The potential Impact may include:

- Financial Losses
- Non-compliance to any regulations or applicable laws may lead to fines, penalties or imprisonment of the person held responsible;
- Loss of Human Resource;
- Health, Safety and Environment related incidences;
- Business interruptions / closures;
- Loss of values, ethics or reputation; etc.

The likelihood of occurrence of risk is rated based on number of past incidences in the industry, previous year audit observations, future trends, etc.

Risk may be evaluated based on whether they are internal and external, controllable, and non-controllable, inherent and residual.

Risk Assessment is conducted using a risk matrix for likelihood and Impact, taking the existing controls into consideration. Risk events assessed as "critical" or "high" may go into risk mitigation planning and implementation; low and medium risk may be tracked monitored on a watch list.

The risks identified shall be evaluated on an appropriate risk rating for each risk identified as per the criteria (Risk Impact) below:

Severity	Score	Financial Impact	Operational Impact	Stakeholders' Impact
Insignificant	**1**	Financial implications of the risk are **very low** and are comfortably within the ability of the risk owner to manage locally.	• Minor impact to services or objectives. • Risk occurring would represent a minor revision to planned outcomes.	• Little or no Impact on stakeholder satisfaction. • Short-term and/or localized harm.
Minor	**2**	Financial implications of the risk are **low** (<10% of the budget / turnover). It remains within any contingencies set	• Some limited impact on services or objectives. • Risk occurring may detract slightly from the desired quality of the outcomes.	• Some impact on stakeholder satisfaction. • Notable contributor to environmental harm.
Significant	**3**	Financial implications of the risk are **medium** (more than 10% - 25% of the budget / turnover). It may exhaust or be larger than contingencies made but can be managed without additional funds.	• Short-term disruption to services. • Risk occurring would detract from the desired quality of the outcomes but not detract from the overall purpose of the activity.	• Wider impact on Project Progress. • Notable external stakeholder dissatisfaction
Major	**4**	Financial implications of the risk are **high** (more than 25% - 50% of the budget or Faculty/ Service turnover). It is not possible to meet the cost within the approved budget and further funding would be required.	• Significant disruption to critical services. • Key objectives affected. • Risk occurring would significantly detract from the original desired quality of the outcomes and may reduce the viability of the activity as outcomes require revision.	• Significant impact on Project Progress • Reputational / brand damage is possible. • A major contributor to significant harm. • Regulatory / contractual intervention possible.
Catastrophic	**5**	The impact on finance is **critical** (more than 50% of the budget or turnover). Increased cost would negate benefits of activity and may destabilize the reporting unit. Impacts upon Cash flow.	• Total and sustained disruption to critical services. • Significant impact on key objectives. • Risk occurring would reduce quality of desired outcomes to such an extent that it negates benefits of activity.	• Loss of credibility with stakeholders. • Critical impact to Project Progress • Likely reputational / brand damage. • The major contributor to significant environmental harm.

Table 1: Risk Impact

Risk Occurrence Rating (Likelihood Factor)

Scoring Matrix	Score	Stake Holders
Most Likely	5	Almost certain to happen
Likely	4	More than 50% certain to happen
Occasional	3	50% certain to happen
Unlikely	2	Less than 50% certain to happen
Remote	1	Almost certain not to happen

Table 2: Risk Probability

The Risk Reporting Matrix below is typically used to determine the level of risks identified. A risk reporting matrix is matched with specific likelihood ratings and Impact ratings to a risk grade of low (green), medium (yellow), high (amber) or critical (red).

Rating Scale						
Probability / Likelihood Factor (P)		**Risk Impact (I)**				
		Insignificant	**Minor**	**Significant**	**Major**	**Catostrophic**
		1	**2**	**3**	**4**	**5**
Most Likely	**5**	L	M	H	C	C

Likely	4	L	M	H	C	C
Occasional	3	L	M	M	H	H
Unlikely	2	L	L	M	M	M
Remote	1	L	L	L	L	L

Table 3: Risk Reporting Matrix

Level of Inherent Risk	Description	Inherent Risk (I) * (P)#
Critical	Immediate action required	Over 15
High	Corporate senior management attention is needed to develop and initiate action steps in near future	11 to 15
Medium	Functional head attention is needed	6 to 10
Low	Managed by routine procedures	< 6

Table 4: Risk Scoring

# I = Risk Impact as per Table 1
P = Risk Probability as per Table 2

B. Risk Mitigation Strategy

Based on the Risk Appetite / Risk Tolerance level determined and reviewed from time to time, the Company should formulate its Risk Management Strategy.

There are four common strategies for treating risk. There is no single "best" response strategy and each risk must be considered on its own merits. Some risks may require a combination of strategies and multiple responses, whereas others may need only one strategy with a single response.

a. Risk Avoidance / Termination:

By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain and opportunity that accepting (retaining) the risk may have allowed.

This is particularly important in terms of projects risk, market risk or client risk but often wishful thinking in terms of the strategic risks.

b. Risk Reduction / Mitigation:

Reduce or Treat the risk involves employing methods / solutions that reduce the severity of the loss. This is the most widely used approach.

The purpose of treating a risk is to continue with the activity which gives rise to the risk but to bring the risk to an acceptable level by taking action to control it.

c. Risk Transfer

Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging, for examples insurance or hedging. This option is particularly good for mitigating financial risks or risks to assets.

The following aspects shall be considered for the transfer of identified risks to the transferring party:

- Internal processes of the organization for managing and mitigating the identified risk.
- Cost benefits analysis of transferring the risks to the third party.

d. Risk Acceptance / Retention:

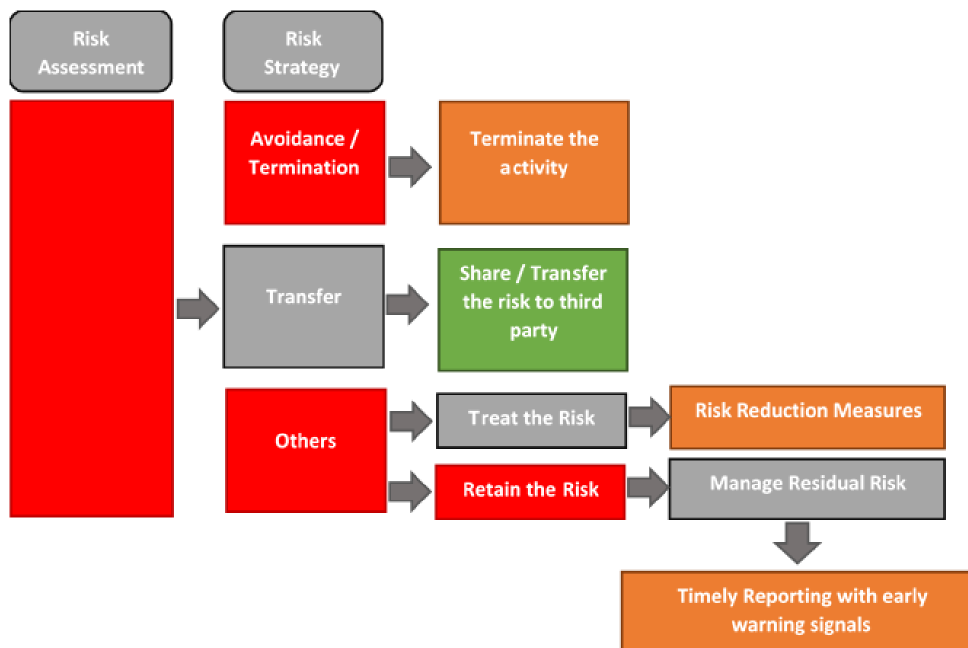
Accept and tolerate the risk when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default.

This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be unfeasible. The organization shall tolerate such risks, such as:

- A risk that cannot be mitigated cost effectively;
- A risk that opens up greater benefits than loss; or
- Uncontrollable risk.

Risk Mitigation Process

The risks are identified and if the risk mitigation strategy selected by the Company, is risk reduction or risk transfer, the next step shall be to review and revise existing controls to mitigate the risks falling beyond the risk appetite and also to identify new and improved controls.



C. Risk Monitoring and review

Risk Management uses the output of a Risk Assessment and implements countermeasures to reduce the risks identified to an acceptable level. This policy provides a foundation for the development of an effective risk register, containing both the definitions and the guidance necessary for the process of assessing and mitigating risks identified within functions and associated processes.

In circumstances where the accepted risk of a particular course of action cannot be adequately mitigated, such risk shall form part of consolidated risk register along with the business justification and their status shall be continuously monitored and periodically presented to Risk Management Committee.

a. Risk Monitoring

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risks with their mitigation measures shall be updated on a regular basis (Prebid time / Quarterly / Half Yearly).

Quarterly Monitoring

- The Department Heads/ Project heads (Risk Coordinators) shall review and report the status of risks and treatment actions to the CRO on quarterly basis. In addition, Risk Coordinators shall identify and report any new or changed risk to the CRO on quarterly basis.
- The Risk Assessment Team shall monitor and supervise the development and implementation of the Risk Management Policy and maintain wide view of the key risks and their mitigation measures faced by the organization on quarterly basis.
- The CRO along with the other members of the Risk Assessment Team shall identify the key risks and suggest mitigation measures to the concerned risk owners on quarterly basis.

Half yearly Monitoring

- The Risk Assessment Team shall report through CRO, the key risks and their mitigation plans to the Risk Management Committee on bi-annual basis.
- The Risk Management Committee shall apprise the Board of Directors on the key risks faced by the organization and the mitigation measures taken on bi-annual basis.

b. Risk Review

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed, and that appropriate controls and responses are in place. Regular audits of policy and standards compliance shall be carried out and standards performance reviewed to identify opportunities for improvement.

It shall be remembered that organization is dynamic and operates in a dynamic environment. Changes in the organization and the environment in which it operates must be identified and appropriate modifications made to risk management practices. The monitoring process shall provide assurance that there are appropriate controls in place for the organization's activities and that the procedures are properly understood and followed.

The Risk Coordinators (Project Heads) shall review the progress on the actions agreed to mitigate the risk and make an assessment of the current level of risk including:

- Establishing whether actions have been completed or are on target for completion;
- Report the status of implementation of mitigation plans to the CRO.

Bid and Opportunity Risk Assessment Process

The Company is expected to pursue several new Bids / Opportunities at any given point as part of its business development and expansion activities. In order to enable robust growth, the management shall take risk-informed decisions while choosing to pursue an opportunity or submit a bid. It is therefore essential to follow a rigorous process for evaluating bids for upcoming projects and look for options that maximize value and optimize risks at the inception stage of a project.

This section outlines the role of Project Head (Risk Coordinator) and process to be followed as part of Bid and Opportunity Risk Assessment.

A. Purpose

The purpose of Bid and Opportunity risk assessment is to enable early cognizance of risk factors associated with the project being pursued. This is not intended to substitute any existing risk analysis or assessment which is undertaken by businesses as part of their bid evaluation process but is meant to act as an independent evaluation of bids.

B. Responsibility

The primary onus of identifying risks associated with the Bid/ Opportunity as well as treatment plans vests with the Project Head. The Risk Owners of the Project Department shall assist in conducting an independent assessment of the risks associated with the Bid/ Opportunity.

Based on the above assessment, the Risk Coordinator (Project Head) shall present its analysis of the Project to the Risk Management Committee as part of the approval process.

C. Scope

The scope of Bid/ Opportunity risk assessment shall include various risks that may arise at any stage of the project, both pre-implementations, during execution as well as during operations. The risks to be assessed may include, but shall not be restricted to the following:

- Funding risk – financial closure and financial flexibility;
- Completion Risk – clearance / gestation period / land acquisition (if applicable)
- Risks due to alliances / partners / vendors;
- People / Resource related risks;
- Environment, Health and Safety risks;
- Technology risk;
- Construction risk including contractor's experience, contractor's creditworthiness and safeguards in contracts;
- Project location risk;
- Manpower risk;
- Logistics risks;
- Regulatory risks;
- Market risks – offtake risks, counterparty risks, pricing risks
- Operating efficiencies including operation and maintenance risk
- External and environmental risks including the competitive environment and political environment
- Financial risks such as:
  - Debt service coverage
  - Debt / Equity
  - Internal Rate of Return (IRR)/ Net Present Value (NPV) ;
  - Cash Flows
  - Degree of exposure to interest rate risk/ currency risk/ commodity risk
  - Revenue Sensitivity

Process

Initiation	The process for Bid and Opportunity risk assessment shall commence when the Bid/ Opportunity has been identified by the Business Development team. Each Bid/ Opportunity pursued shall be duly notified by the Project Department personnel to the Project Head on a timely basis.

Information Gathering	The Project Head shall request for and receive all information pertinent to the Bid/ Opportunity being pursued. This information shall include, at a minimum, the following: • Background of the Project; • Documents such as the tender/ request for quotations/ proforma contracts/ due diligence and consultant reports; • Financial and other models prepared to assess viability including key assumptions used therein • A list of risks envisaged by the Risk Owners and treatment thereof
Risk Assessment and Validation	The Project Department perform the following activities: • Understand the context and requirements of the opportunity by scrutinizing the documents, and interactions with relevant Risk Owner; • Prepare a Bid / Opportunity Risk Review document based on risks envisaged by the Risk Owner which shall catalogue the risks across the various categories; • Assess if Bid/ Opportunity is evaluated based on multiple scenarios (for example: base case, best case, worst case) while pricing; • Evaluate the impact and likelihood of the residual risks vis-à-vis the measurement scale for qualitative parameters where possible • Discuss risk assessment performed to factor inputs from various members of Risk Assessment Team. In case of divergent views, the same may be escalated to the Risk Management Committee.
Reporting	The Project Head (Risk Coordinator) shall submit the Risk Review document as part of the Bid/ Opportunity dossier to ensure that the Management is cognizant of the risks in the Bid/ Opportunity. The ultimate decision on go/ no go or relating to the risk provision to be carried in the Bid/ Opportunity price shall rest with the Director Incharge.

Disclaimer

The Management cautions that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

Annexure 1: Risk Categorization

All the risks that have been identified shall be classified under the following Risk Categories which are specific to the Company, below is the illustrative list of risks:

a. Estimation Risk

Being into Construction business, the Company procures most of its contracts on cost estimates of the project. These cost estimates are subject to a number of assumptions.

If the Company fails to estimate accurately the revenues, costs or risks involved in undertaking a particular project, then executing such project may lead to cost overruns which may cause the project to realize lower profit or even a loss.

Risk Mitigation Measures

In order to counter above risk, the Company has a created a separate department called “Tender Department” which consists of experienced professionals who are experts in this field. Every project is bided /quoted after estimating the costs of materials, labour cost, reputation and goodwill of the Agency/Person awarding the contract, size and payment terms of the contract, location of the project, etc.

All the potential risks involved with a project are quantified in monetary terms by these professionals before entering into the bidding thereby countering the impact of losses, if any, that may arise out the above risk.

Further, some of the projects procured by the Company are “Fixed Price Contracts” (“FP Contracts”). These FP Contracts are basically fixed unit contracts, which requires the Company to procure all the resources on its own to complete a project for a fixed sum unit price.

In such FP contracts the Company adds an escalation clause in relation to procurement of steel and cement, which entitles the Company to revise the value of the contract, if there is an substantial increase/decrease in procuring prices of steel and cement. These two components represent the major cost of construction material and by including an escalation clause in the contract agreement; risks arising out of increase in input prices of materials is suitably minimized.

b. Revenue Realisation Risk - Inability to realize the full contract value of the project

All major projects awarded to the Company are of relatively longer period, generally spanning from 6 months to 3 years. For any reason, if the contract is terminated or suspended before its expiry period, there is a possibility of non-realization of contract value or to recover the cost incurred by the Company on said contract. Inability of the Company to realize full contract value at the completion of the Project affects the profitability of the Company.

Risk Mitigation Measures

The Contract agreement for a project is drafted in such a way that it enables the Company to receive periodical payments / installments during different phases of the project, further some of the contracts also includes mobilization advance payable before starting the project. The amount and terms of above payments are calculated based on cost likely to be incurred by the Company during different phases of the project, duration of the project, along with the goodwill and reputation of the Contract.

This shields the Company from incurring major losses arising out of cancellation of the contract before its completion or even non-realization of full contract value of the project at its completion.

c. Liquidity Risks

The liquidity crunch has been prevailing in the construction industry for some time now, and many companies are financially stressed. The Banks have changed the policies for loan to construction companies with various new norms for securities, personnel guarantees etc.

Risk Mitigation Measures

The Company has a well laid down credit limit system. It practices screening of client profiles and their liquidity position before bidding of any tender for any construction contract as well as during execution.

Stringent adherence to billing schedule minimizes credit exposure and focused and aggressively receivables management system ensures, timely collections through systematic follow-ups with clients.

Besides, the Company focuses more on Government projects where the risk profile is comparatively low.

Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilize cash in an effective manner.

d. Procurement Risk

Procurement is one of the most important factors in the success of construction projects. It is pivotal throughout the entire project during both design and construction phases. Construction projects always involve enormous resource consumption, and every expense must be considered for all stakeholders to achieve a reasonable return on their investment. Hence some major risks associated to procurement includes:

- Supply Risks – Failure to secure ongoing supply critical to the organization both in terms of quantity and quality;
- Insufficient supplier's lead time;
- Misrepresentation of facts by potential suppliers;
- Delivery Risk – Failure to receive the supply of material in time;
- Financial Risk – Failure to procure the material at the cost estimated by the Company.

Risk Mitigation Measures

Raw materials are procured from different sources at competitive prices by the Company, and alternative sources are developed for uninterrupted supply of raw materials.

Proper inventory control systems such as Economic Order Quantity (EOQ) have been put in place, which helps the Company to minimize the cost of ordering and holding inventory.

e. Human Resource Risks

Potential risk arising from the Company's inability to attract, retain or properly train qualified individuals.

Risk Mitigation Measures

Company maintains a proper recruitment policy for recruitment of personnel at various levels in the organization.

Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.

Employees are trained at regular intervals to upgrade their skills

Labour problems are obviated by negotiations and conciliation. Further, the Company hires most of the labour through Labour Contractors; hence the labour productivity and discipline are managed by such contractors.

f. Legal Risks

Potential risk arising from legal action, contractual breaches or adverse statutory modifications

Risk Mitigation Measures

A detailed review of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.

The Legal department vets all legal and contractual documents with legal advice from legal retainers for different branches of legislation.

g. KMP Risk - Loss of key managerial personnel and Directors/officers liability Risks

The Company's business substantially depends upon the continued service of its managerial personnel. The losses of services of the key managerial personnel could have a material adverse effect on the Company.

The Company's Directors and officers are required to take decisions in the best interest of the Company, any negligence, errors, mistakes or omissions on their part might lead the Company into financial, legal or reputational troubles.

Risk Mitigation Measures

The Company has always accorded its highest priority for the satisfaction of its employees. For this, it has formulated employee friendly HR policies and has also constituted a Committee comprising of senior management personnel to look after the interest of the employees.

The Company provides all necessary information to its Directors and officers, it also consults legal professionals and experts in relevant matter to mitigate the impact of the risk. Further, the Company has a practice for undertaking appropriate insurance coverage to protect itself and limit the contractual liability resulting due to damages caused by any negligence or error on part of its employees.

h. IT System Risks

Potential risk arising from the failure or inadequacy of information technology, which may include

- IT System failure risk;
- Reliability of IT System;
- Data integrity risks
- Coordinating and interfacing risks
- Information Security (Privacy / anti hacking)

Risk Mitigation Measures

IT department maintains and upgrades the systems on a continuous basis
Password protection is provided at different levels to ensure data integrity.
Licensed software is being used in the systems.
Segregation of duties with respect to access, view and modification of information systems are validated periodically.
On appointment of an employee, approvals from functional heads are obtained to facilitate creation of an employee ID. Access to required information systems is dependent on an employee ID.

i. Environment, Health and Safety Risks

Potential risk arising from detrimental environmental (air, land, water) events (e.g., spill, emissions) related to the Company's operations.

Potential risk arising from disruption of business due to a natural / manmade disaster like fire, theft, accidents, etc., other disasters such as epidemic / pandemic amongst others that are beyond the Company's control may adversely impact the Company's operations and profitability.

Potential risk arising from threats or inadequate safeguards to maintain both the well-being of the Company's human capital and the public's safety

Risk Mitigation Measures

The Company has implemented contingency plans for insulating it and protecting its assets and inventory from any unfortunate events. The Company on an ongoing basis continues to implement loss prevention measures like high safety and security standards to be better prepared to handle such risks.

j. Competition Risk

The Construction market is a competitive market, as a result of consolidations among existing companies as well as due to emerging competition led by the entry of new domestic and international companies.

The inability of the Company to match their quality and pricing may lead of business, impacting its market shares and profitability.

Risk Mitigation Measures

The Company with its experience of working across diverse challenging projects across its more than four decades of existence has created a strong differentiation in the market in terms of project execution, quality, and timely delivery.

It has delivered multiple projects as per client's expectations and satisfaction, thereby earning a market reputation as well as building strong relationship which ensures sustained orders, including repeat, and resilience to rising competition.

The Company's strong Balance sheet position with free cash flows, which not only provides the advantage of high pre-qualification criteria but also capital to make a sustained investment. This enables the Company to consistently enhance its competencies by attracting and retaining better people and upgrading its technology infrastructure.

k. Political Risks

A positive business scenario, conducive growth and sustainability is dependent on the political stability of the country. Unstable political environment and implementation of adverse policies can bring a slowdown and result in a decline in new projects. This may adversely impact the Company's performance.

Risk Mitigation Measures

India's democratic system of governance ensures a stable political scenario and ensures the implementation of policies where businesses can thrive. The system mandates all political parties to be investor-friendly for enhanced economic activity. The track record of this Government for undertaking bold measures, reducing red-tapism and easing business scenario is net worthy. Their strong focus on driving infrastructure development in the country, evident in their election manifesto, is a positive sign for the construction industry.