RISK MANAGEMENT POLICY

LEGAL FRAMEWORK

Risk Management is a key aspect of Corporate Governance Principles and Code of Conduct which aims to improvise the governance practices across the business activities of any organization. The new Companies Act, 2013 and the Clause 49 of the Equity Listing Agreement have also incorporated various provisions in relation to Risk Management policy, procedure and practices.

The provisions of Section 134 (3) (n) of the Companies Act, 2013 necessitate that the Board's Report should contain 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.

Further, the provisions of Section 177 (4) (vii) of the Companies Act, 2013 require that 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 risk management systems.

OBJECTIVE

The main objective of this Policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the Company's business and to create and protect shareholders' value by minimizing threats or losses, and identifying and maximizing opportunities. In order to achieve the key objective, this Policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues.

Strategic Objectives

1. Providing a framework that enables future activities to take place in a consistent and controlled manner.

2. To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated, minimized and managed i.e. to ensure adequate systems for risk management.

3. Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats.

4. Contributing towards more efficient use/ allocation of the resources within the organization.

5. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.

6. Reducing volatility in various areas of the business.

7. Optimizing operational efficiency.

APPLICABILITY

This Policy applies to all areas of the Company's operations.

KEY DEFINITIONS

"Risk and Audit Committee or Committee" means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing agreement.

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

"Policy" means Risk Management Policy.

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

"Risk Management" is the systematic way of protecting business resources and income against losses so that the objectives of the Company can be achieved without unnecessary interruption.

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

RISKS INHERENT IN THE INDUSTRY

Business Risk

We, belonging to the Edible Oil Industry, are exposed to significant threats that arise because of price volatilities, regulatory uncertainties and raw material availability concerns. We also face stiff challenges in marketing our products since there is little product differentiation, and assured offtake or long-term contracts are few and far between. The industry also has a high credit risk, which arises from its widespread debtor base and the trading nature of its operations.

Solvent extraction units face huge raw material availability risks since oilseed imports are minimal and largely restricted. Hence, the domestic extraction units have to depend solely on the domestic crop, which, in turn, depends on monsoons, crop yields, the area under cultivation, minimum support prices and other financial incentives announced by the government. Apart from its highly seasonal nature, oilseed production fluctuates widely because of these variables.

Moreover, more than 35 per cent of domestic oil consumption is dependent on imports. Hence, global demand-supply dynamics too have a key bearing on domestic realizations with domestic prices increasingly aligning themselves to international ones. Since international oil prices continue to exhibit highly volatile patterns, they affect domestic players. Although the industry offers a natural hedge to some extent since input and output prices are correlated, any adverse movement in prices could make the business unviable because of the industry is extremely thin bottom-line. The domestic Edible Oil Industry also faces significant regulatory risks as evident in the Government's increasing interventions through frequent changes in customs and excise duty structures and international trade-related regulations (import and export restrictions). These changes have a far-reaching impact on players since the consumers' high price sensitivity leads to shifts in the demand pattern among various edible oils. As a result, one oil category often expands at the cost of another.

As a result of all these factors, the industry is currently witnessing a large shakeout with the less efficient players closing shop. Large and organized players with relevant capabilities and financial strength are, on the other hand, improving their market positions.

Financial Risk

GARL foreign currency revenue earnings are significant and any appreciation or depreciation of rupee can have significant impact on revenues and profitability. GARL has a consistent hedge policy designed to minimize the impact of volatility in foreign exchange fluctuations on the earnings. We evaluate exchange rate exposure arising from these transactions and enter into foreign exchange hedge instruments to mitigate risks arising out of movements in the rupee (INR). The hedge program covers a large portion of projected future revenues. Appropriate internal controls are in place for monitoring the hedge program.

Government Policies

The policies announced by the Government have been progressive and are expected to remain likewise in future, and have generally taken an equitable view towards various stakeholders, including domestic farmers, industry, consumers etc. Government policies play an important role in the businesses of our Company.

RISK MITIGATION PRACTICES

Availability Risk

We maintain adequate stocks to achieve optimal capacity utilization during the offseason, making our operations highly working capital-intensive and raising stockholding costs. This practice also increases price risk to some extent, since the industry could face volatility between the procurement of the inputs and the sale of the outputs, impacting margins. We also prefer to be located close to raw material sources. For example, a majority of the solvent extraction units that deal in soya-based oils have capacities in Madhya Pradesh, the country's soya bowl. Refining units that use imported crude oil as their feedstock, on the other hand, prefer to be based at a port to also save on logistics costs.

Price Risk

Company uses risk mitigation tools such as agro-commodity futures to manage price risk. Globally, commodity exchanges like the Chicago Board of Trade (CBOT) have significantly higher volumes than the equity exchanges in the country, but domestic exchanges have low volumes and have traditionally been technologically inferior to their international counterparts. Nationwide commodity exchanges have come up recently such as the National Commodity and Derivatives Exchange (NCDEX) and Multi-Commodity Exchange (MCX), which are trying to match international standards of connectivity and scalability. Nevertheless, a significant proportion of domestic players still do not hedge their positions, leading to high volatility in margins. The Company also uses forward currency covers for imports and exports to hedge against currency risks.

Regulatory Risk

The Company has diversified its operations across more than one oil category to insulate themselves from any demand substitution due to relative duty changes. Also, we have set up import-based refining plants in areas that offer tax breaks such as Kandla Port in Gujarat to save on customs duty, apart from enjoying cost economies because of its proximity to the input source.

Credit Risk

On an average, we provide a credit period of 2 to 4 weeks. While this is specific to a player's internal credit policy, a high debtor turnover is desirable. Additional incentives such as cash discounts are also a common feature in the business. Accordingly, we also follow the same practice and enter into letter of credit-based contracts for exports of DOC and other products.

Risk Management Policy

The Company, by adopting a Risk Management Policy, has ensured the awareness of its standards for risk taking while conducting business. The aim of this policy is not to eliminate risk. It is to assist personnel to manage the risks involved in all activities to maximize opportunities and minimize adverse consequences.

RISK MANAGEMENT COMMITTEE

The following members of the Board shall constitute the Risk Management Committee, and shall look after the affairs falling under the purview of the said Committee.

1. Mr. Keyoor Bakshi - Chairman
2. Ms. Pooja Khakhi - Member
3. Mr. Pankaj Kotak - Member
4. Mr. Jayesh Thakkar - Member

The members of Risk Management Committee shall place their recommendations from time to time for review, perusal and approval of the Board of Directors.

ROLE OF RISK and AUDIT COMMITTEE

The following shall serve as the Role and Responsibility of the Audit Committee authorized to evaluate the effectiveness of the Risk Management Framework:

1. Review of the strategy for implementing risk management policy

2. To examine the organization structure relating to Risk management

3. Evaluate the efficacy of Risk Management Systems – Recording and Reporting

4. To review all hedging strategies / risk treatment methodologies vis-a-vis compliance with the Risk Management Policy and relevant regulatory guidelines

5. To define internal control measures to facilitate a smooth functioning of the risk management systems Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management systems.

PENALTIES

The penalties are prescribed under the Companies Act, 2013 (the Act) under various sections which stipulate having a Risk Management Framework in place and its disclosure.

Section 134 (8) (dealing with disclosure by way of attachment to the Board Report):

If a Company contravenes the provisions of this section, the Company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the Company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

There are other provisions of the Act as well as SEBI Act which stipulate stiff penalties. Therefore, this Policy prescribes that violation of the provisions applicable to Risk Management Framework is something the Company cannot afford to risk.

REVIEW

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