Risk Management Policy and Framework

CONTENTS:

BACKGROUND:

This report encompasses policies and procedures relating to the risk management of the Company ("**Risk Management Policy**" or "**Policy**"). The risks detailed herein are not exhaustive and are for information purposes only. This policy may contain forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. The Company undertakes no duty to update any forward-looking statements.

This policy lays down the framework of risk management at Onward Technologies Limited (hereinafter referred to as the "**Company**") and defines the policy for the same. This policy shall be under the authority of the Board of Directors of the Company ("**Board**"). It seeks to identify risks inherent in any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks, inter alia, are: (a) changes in regulations, (b) increase or change in behaviour of competition, (c) changes in the business environment, (d) developments in technology, (e) changes in investor sentiments, (f) retention of talent and expansion of facilities. As a matter of policy, these risks are assessed and steps as appropriate, are taken to mitigate the same.

DEFINITIONS:

"Audit Committee" means committee of the Board constituted under the provisions of the Companies Act, 2013 (the "**Act**"), Regulation 18 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**") 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 Act)

"Independent Director" shall have same meaning as defined meaning as defined under section 2 (47) read with section 149 (5) of the Act.

"Policy" means Risk Management Policy.

"Risk Management Committee" means committee of the Board constituted under the provisions of the Act and Regulation 21 of the Listing regulations.

OBJECTIVE:

The objective of risk management at the Company is to create and protect shareholder value by minimizing threats or losses and identifying and maximizing opportunities. An enterprise-wide risk management framework is applied so that effective management of risks is an integral part of every employee's job.

Strategic Objectives of the Policy:

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's 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.

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 Act and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 have also incorporated various provisions in relation to risk management policy, procedure and practices.

As per clause (1) of Sub Part C of Part D of Schedule II of the Listing regulations, the Risk Management Committee of the Board is required to formulate a detailed risk management policy.

Further, the provisions of Section 177(4)(vii) of the Act 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 internal financial controls and risk management systems.

In line with the above requirements, it is therefore required for the Company to frame and adopt the policy.

POLICY:

Before proceeding to the policy, attention is drawn to the roles that the Board, Audit Committee and Risk Management Committee are required to play under the above regulations governing risk management.

The Board's role under above regulations is to ensure framing, implementing and monitoring risk management plan, having in place systems for risk management as part of internal controls with duty being cast upon Independent Directors to bring unbiased angle to the Board's deliberations on making risk management systems more robust.

Role of Audit Committee:

1. To evaluate internal financial controls and risk management systems adopted by the company.
2. To evaluate the efficacy of recording and reporting of risk related issues.

Role of Independent Directors:

1. Assess the quality, quantity and timeliness of flow of information between the company management.
2. Review of the strategy for implementing risk management policy.
3. To review all hedging strategies/risk treatment methodologies vis a vis compliance with relevant regulatory guidelines.
4. Satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.

Role of the Risk Management Committee:

1. Developing a framework for identification of internal and external risks specifically faced by the Company, *inter alia*, financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.

2. Developing measures for risk mitigation including systems and processes for internal control of identified risks.
3. Ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company.
4. Monitor and oversee implementation of the policy, including evaluating the adequacy of risk management systems.
5. Review the policy, at least once in two years, by considering the changing industry dynamics and evolving complexity.
6. Keep the Board informed about the nature and content of its discussions, recommendations and actions to be taken.

This policy shall complement the other policies of Company in place such as the 'Policy on Related Party Transactions', to ensure that the risk, if any, arising out of related party transactions are effectively mitigated.

RISK FACTORS:

The objectives of the Company are subject to both external and internal risks that are enumerated below:-

External Risk Factors:

- Economic Environment and Market conditions
- Political Environment
- Competition
- Revenue Concentration and liquidity aspects

Each business area of services offered by the Company has specific aspects on profitability and liquidity. The risks are therefore associated on each business segment contributing to total revenue, profitability and liquidity. Since the projects that have inherently longer timeframe and milestone payment requirements, they carry higher risks for profitability and liquidity.

Inflation and Cost structure:

Inflation is inherent in any economy and thereby there is a tendency of costs going higher. Consequently, the project business, due to its inherently longer timeframe, may face much higher risks for inflation and resultant increase in costs.

Technology Obsolescence:

The Company strongly believes that technological obsolescence is a practical reality. Technological obsolescence shall be evaluated on a continual basis and it shall ensure that necessary investments are made to bring in the best of the prevailing technology.

Legal:

Legal risk is the risk in which the Company is exposed to legal action. 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 several legal risks.

Fluctuations in Foreign Exchange:

The Company has considerable currency exposure in case of sales, purchases and other expenses. It has a natural hedge to some extent. However, beyond the natural hedge, the risk can be measured through the net open position i.e. the difference between un-hedged outstanding receipt and payments. The risk may be controlled by a mechanism of 'stop loss' which means the Company goes for hedging (forward booking) on open position when actual exchange rate reaches a particular level as compared to transacted rate.

Internal Risk Factors:

- Delay in project execution
- Difficulties in contractual compliance
- Operational inefficiency
- Hurdles in optimum use of resources
- Problems in meeting quality assurances
- Environmental management
- Human resource management
- Culture and values

BROAD PRINCIPLES:

The Board shall review the business plan at regular intervals and develop risk management strategies which shall encompass laying down guiding principles on proactive planning for identifying, analyzing and mitigating all the material risk factors, both external and internal. Communication of risk management strategy to various levels of management for effective implementation is essential.

Risk identification is obligatory on all vertical and functional heads who, with the inputs from their team members, are required to report the material risks to the Chairman and Managing Director ("CMD") along with their considered views and recommendations for risk mitigation.

Analysis of all the risks thus identified shall be carried out by CMD through participation of the vertical/functional heads and a preliminary report thus finalized shall be placed before the Audit Committee and the Risk Management Committee.

RISK MANAGEMENT FRAMEWORK:

Risk management is a decision-enabler which not only seeks to minimize the impact of risks but also enables effective resource allocation based on the risk impact ranking and risk appetite. Strategic decisions are taken after careful consideration of risks and opportunities. The framework prescribes approaches to identify and measure primary, secondary, consequential, and residual risks which enable efficient decision making.

The following steps are to be taken in the process of risk management:

Risk Identification: To identify organization's exposure to uncertainty. Risk may be classified in the following: categories:

i. Strategic
ii. Operational
iii. Financial
iv. Legal

Risk Estimation:

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

Impact level on performance/profit – Both threats and opportunities shall be noted.

Reporting:

Internal Reporting:

a) Functional Heads;
b) Risk Management Committee;
c) Board of Directors;

External Reporting:

a) To communicate to the stakeholders on regular basis as part of Corporate Governance

Risk Registers:

Risk registers shall be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Risk managers and risk officers to be identified by the Board or Risk Management Committee for proper maintenance of the risk registers which will facilitate reporting of the effectiveness of the risk treatment to the Risk Management Committee and the Board.

The Board shall have the discretion to deal with certain risks (may be called key or highly sensitive risks) in the manner it may deem fit. Mitigation of such highly sensitive / key risks and effectiveness of their mitigation measures and review of the strategy may be directly discussed by the Board with Audit Committee and the Risk Management Committee.

Development of Action Plan:

The Board has constituted an Audit Committee and a Risk Management Committee comprising majority of Independent Directors and defined the committees' role and responsibility. The committees shall not only assist in implementation of the risk management plan of the Board but also monitor its implementation and review. The members of the Committee shall discharge the role of an internal 'think tank', ideate and bounce off their collective suggestions to the Board for periodically updating of the risk management plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses the Company is engaged in or shall undertake.

INTEGRATION OF RISK MANAGEMENT STRATEGY:

Company's risk management strategy is to be integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aide in establishing competitive advantage and allow the management to develop reasonable assurance regarding the achievement of the Company's objectives.

REVIEW:

This policy shall be subject to review and modification by the Risk Management Committee and the Board from time to time as may be necessary or at least once in two years.

This policy will be communicated to all vertical/functional heads and other concerned persons of the Company. And the same shall be published on the website of the Company on www.onwardgroup.com.

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