

## **RISK MANAGEMENT POLICY**

*[Under Section 134(3) (n) of the Companies Act, 2013 and Regulation 17(9) (b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]*

### **KERALA AYURVEDA LIMITED**

#### **LEGAL FRAMEWORK-**

Risk Management is a key aspect of the “Corporate Governance Principles and Code of Conduct” which aims to improvise the governance practices across the Company’s activities. Risk Management Policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

This document lays down the framework of Risk Management at **Kerala Ayurveda Limited (KAL)** and defines the policy for the same. This document shall be under the authority of the Board of Directors of the Company. 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.

This is in compliance with Section 134 (3) (n) of the Companies Act, 2013 and Regulations 17(9) (b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 which requires the Company to develop and implement a Risk Management Policy / Plan and to lay down risk assessment and minimization procedures.

#### **OBJECTIVE OF POLICY-**

The main objective of Risk Management at Kerala Ayurveda Limited is 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, the 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. 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 images
5. Reducing volatility in various areas of the business
6. Developing and supporting people and knowledge base of the organization.
7. Optimizing operational efficiency

### **REGULATORY-**

The Risk Management Policy of the company is framed as per the following regulatory requirement:

#### **1. COMPANIES ACT , 2013**

##### a. Provisions of the Sections 134 (3)

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

(n) 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.

##### b. Section 177 (4) stipulates:

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

(vii) evaluation of internal financial controls and risk management systems.

##### c. SCHEDULE IV [section 149 (8)]

Code For Independent Directors:

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;

#### **2. Regulation 17(9) (b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]**

This policy is in compliance with the Regulation 17(9) (b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015] which requires the company to lay down procedure for risk assessment and for risk minimization.

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Kerala Ayurveda Limited, being a Listed Company is required to adhere to the regulations made both by the Companies Act, 2013 and Regulation 17(9) (b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015] .

The Board of Directors of **Kerala Ayurveda Limited** (KAL) herein below recommends to the Board for its adoption the Risk Management Policy of the company as set out below:

## **POLICY ON RISK MANAGEMENT**

### **Purpose of this Policy:**

This Policy on Risk Management sets out the Company's approach to create and protect the shareholder value by minimizing threats or losses and identifying and maximizing opportunities.

### **Applicability :**

The policy will be effective from 1<sup>st</sup> April 2015.

### **Policy-**

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

The Board's role under both the 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.

Audit Committee's role is evaluation of the risk management systems.

This policy shall complement the other policies of KAL in place e.g. Related Party Transactions Policy, to ensure that the risk if any arising out of Related party transactions are effectively mitigated.

### **Board Principles**

The Board has to review the business plan at regular intervals and develop the Risk Management Strategy which shall encompass laying down guiding principles on pro active planning for identifying, analyzing and mitigating all the material risks, both external and internal viz. Environmental, Business, Operational, Financial and others. Communication of Risk management Strategy to various levels of management for effective implementation is essential.

Responsibility for risk management is shared across the organization. Key responsibilities include: Risk Ownership and management – perform and monitor day-to-day risk management activity. 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:

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- a) Report to their immediate leader or supervisor, any real or perceived risks that become apparent and may significantly affect KAL's:
- Commercial viability;
  - Profitability;
  - Assets;
  - Business continuity;
  - Customers;
  - Regulatory and/or legal obligations;
  - Reputation; and/or
  - People and/ or their safety.
- b) Report to their immediate leader or supervisor, any real or perceived risks that KAL's operations may significantly affect the broader:
- Environment; and/or Community

The Board of Directors' of the company and the Audit Committee shall periodically review and evaluate the Risk management system of the company so that the management controls the risks through properly defined network.

Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and Audit Committee.

The committee 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 Audit Committee shall discharge the role of "Think Tank", ideate and bounce off their collective suggestions to the Board for periodic 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 Kerala Ayurveda Limited is engaged in or shall undertake.

Audit Committee shall critically examine the report and each identified risk shall be assessed for its likely impact vis a vis the resources at the Company's disposal.

The Management/Board/Board Committee is responsible for periodically reviewing the group's risk profile as detailed below, fostering a risk-aware culture and reporting to the Audit Committee on the effectiveness of the risk management framework and of the company's management of its material business risks.

- Liquidity risk management
- Funding and capital planning
- To oversee funds inflow & outflows position to ensure adequate surplus in the system to meet all financial obligation on time & ensure sufficient fund available for new expansions.
- Forecasting and analyzing 'What if scenario' and preparation of contingency plans etc.
- Intimate to Board of Directors if any adverse situation is expected.
- Review if any increase in cost of funding impact on our business & action taken to mitigate the risk.

- There will be adequate information system also to Monitor the changes in competitor's policy & impact on our business model. If any changes in macro environment is expected to intimate to Management with expected level of impact on our business.
- Review the Credit policy of the company.
- Reviewing the adequacy of Risk Management function including the structure of the Risk Management Committee reporting structure, coverage frequency of risk factors.
- Reviewing the findings of internal investigations by the Risk Management committee into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Regularly monitoring business/product expansion in new branch/region done with adequate experience. Steps taken to introduce lower risky product launched first & with experience other products launched. Also review growth in the same branch/regions.
- Review adequacy of steps taken to improve Company credit ratings & all necessary information/facts presented to Credit Rating Agencies for on time renewal.
- Review timely actions taken against legal and other proceedings continuing against the Company.
- Oversee if any significant increase in operating cost structure.
- Review adequacy of action taken to avoid system failures or inadequacy and security breaches in computer systems.
- Review the renewal of license trademark/service mark and logo in connection with the "Kerala Ayurveda" brand.
- Review contingent liabilities & impact of the same in case of any adverse situation.
- To review the regulations and guidelines issued by regulatory authorities in India, our Compliance with regard to the same.
- Review if any related party transactions, terms & conditions there on.
- Review if any new product launched or diversification in business & risk there on.
- Review adequate insurance cover taken for all our assets including human resources to cover all risk factors.
- Ensure all major control points are implemented & adequate action taken to avoid major lapses of control or system failures etc.
- To review all rentals & lease agreements renewed in time for our entire Branch & other Offices for smooth operations.
- To carry out any other function as decided by the Board of Directors from time to time.

**Independent Risk Assurance** – provide independent challenge and assurance

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Internal Audit provides independent assurance on the effectiveness of internal controls and the Risk Management Framework.

More specifically, Internal Audit is responsible for:

- Developing and implementing an annual audit plan having regard to KAL's material risks;
- Reviewing the effectiveness of KAL's risk management policy and risk management processes; and
- Notifying new risks and emerging risks identified in the course of implementing the audit plan and, where necessary, modifying the audit plan to take account of the impact of new risks.

The Board / Audit committee may maintain oversight and monitor the effectiveness of internal controls and risk management activities

The Audit Committee will assist the Board in overseeing the risk profile and is responsible for overseeing the effectiveness of management's actions in the identification, assessment, management and reporting of material business risks.

### **Role of 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:

- Review of the strategy for implementing risk management policy
- To examine the organization structure relating to Risk management
- Evaluate the efficacy of Risk Management Systems – Recording and Reporting
- To review all hedging strategies/risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines
- 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.

### **Risk Registers**

Risk Registers shall be maintained showing the risks identified, measures prescribed to remove the same, also indicating the persons responsible for rectification of the same and also a status after action initiated. Risk Managers and Risk Officers to be identified for proper maintenance of the Risk Registers which will facilitate reporting of the effectiveness of the risk measures to the audit Committee and the Board.

### **RELATED AND SUPPORTING POLICIES**

This Risk Management Policy is supported by, and linked to, specific KAL policies and standards as issued from time to time. These policies and standards include, but are not limited to:

- Code of Fair Practices and Disclosures

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- Code of Conduct
- Vigil Mechanism Policy
- Policy on Related Party Transactions
- Policy on determination of Materiality of Events.

## **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 Audit Committee and the Board from time to time as may be necessary.

This policy will be communicated to all departmental heads and other concerned persons of the company.

The Audit Committee and Board of Directors shall have the power to modify, amend or replace this Policy in part or full as may be thought fit from time to time in their absolute discretion as far as it is not in contravention of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

In case of any inconsistency between any of the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 / the Companies Act, 2013 and this Policy or in case of any omission of any of the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 / the Companies Act, 2013 in this Policy, the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 / the Companies Act, 2013, as amended shall prevail or be applicable, as the case may be.