

MILKFOOD LIMITED

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'RISK MANAGEMENT POLICY'

1. BACKGROUND

Milkfood Limited (the Company) is a company engaged in the manufacture of Milk Powder consisting of whole milk powder, skimmed milk powder, Pure Ghee, casein, Dairy Whitener and De-mineralized Whey Powder etc.

'Risk' in literal terms can be defined as the effect of uncertainty on the objectives. Risk is measured in terms of consequences and likelihood. Risks can be internal and external and are inherent in all administrative and business activities. Every member of any organisation continuously manages various types of risks. Formal and systematic approaches to managing risks have evolved and they are now regarded as good management practice also called as Risk Management.

'Risk Management' is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of uncertain events or to maximize the realisation of opportunities. Risk management also provides a system for the setting of priorities when there are competing demands on limited resources. Effective risk management requires:

- A strategic focus,
- Forward thinking and active approaches to management
- Balance between the cost of managing risk and the anticipated benefits, and
- Contingency planning in the event that critical threats are realised.

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:

- Regulations,
- Competition,
- Business risk,
- Technology obsolescence,
- Return on investments,
- Business cycle,
- Increase in price and costs,
- Limited resources,
- Retention of talent, etc.

2. 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 organisation. 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.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a **“Risk Management Policy”** (this Policy) of the Company.

3. PURPOSE AND SCOPE OF THE POLICY

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. 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.

The specific objectives of this Policy are:

- 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.
- To establish a framework for the company's risk management process and to ensure its implementation.
- To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
- To assure business growth with financial stability.

4. APPLICABILITY

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

5. KEY DEFINITIONS

➤ **Risk Assessment –**

The systematic process of identifying and analysing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks

➤ **Risk Management –**

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 –**

The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

6. 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-**

➤ **Inflation and Cost structure-**

Inflation is inherent in any business and thereby there is a tendency of costs going higher. Further, the project business, due to its inherent longer timeframe, as 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 is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.

➤ **REGULATORY ENVIRONMENT**

We know that the “Quality” has become a necessity for survival and success. Quality ensures “safety of food”. Food borne diseases can be fatal to human beings and can damage trade and tourism. All the stakeholders of the dairy industry i.e. milk producers, milk handlers, manufactures and processors, distributors and retailers, consumers and law enforcement agencies have a responsibility to ensure that food is safe and suitable for consumption. Placement of quality control standards, particularly international standards adds value to the products in global market. The laws regulating the safety and quality of food are in existence since 1899. The number of legislations and quality standards have also increased substantially with the passage of time and growth of the industry. The food sector in India is governed by a multiplicity of laws under different Ministries. The recent enacted “Food Safety and Standards Act, 2006”, aims to integrate the food safety laws in the country in order to systematically and scientifically develop the food processing industry and shift from a regulatory regime to self-compliance. As part of the process of consolidation, the Act covers repealing of eight existing laws related to food safety. The unit will give an orientation to important laws and quality standards in reference to the dairy industry.

➤ **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 legal risks.

➤ **Internal Risk Factors**

The Company has various Internal Risks Factors concerning the business and affairs of the Company such as:

- Project Execution
- Contractual Compliance
- Operational Efficiency
- Hurdles in optimum use of resources
- Quality Assurance
- Environmental Management
- Human Resource Management
- Culture and values
- Relation with the Public in the surrounding areas.

7. RESPONSIBILITY FOR RISK MANAGEMENT

Generally every staff member of the Organisation is responsible for the effective management of risk including the identification of potential risks. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

8. COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors have the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organisation's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

9. REVIEW

This Policy shall be reviewed every year by the team of the management comprising of Chief Executive officer, Chief Financial Officer and Company Secretary of the Company to ensure it meets the requirements of legislation and the needs of organization.

10. AMENDMENT

This Policy can be modified at any time by the team of the management stated above.