

# FINOLEX

## PIPES & FITTINGS

### ENTERPRISE RISK MANAGEMENT POLICY



Version: 2017/FIL/1.1  
2025/FIL/1.2

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## **Finolex Industries Limited**

### **Risk Management Policy**

#### **1. Risk Management - Introduction**

Risk management is an integral component of good corporate governance and fundamental in achieving the Company's strategic and operational objectives. The purpose of this policy is to establish a structured and consistent approach to identifying, assessing, managing, and monitoring risks. Risks are inherent in our business activities and can relate to strategic threats, operational issues, compliance with laws, and reporting obligations. This policy aims to ensure that all significant risks to the company's objectives are systematically identified and monitored.

#### **2. Objectives**

The Risk Management Policy forms part of the internal control and corporate governance framework of Finolex Industries Ltd.

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.

#### **3. Scope**

This policy applies to all employees, business units, and functions within the company. It encompasses strategic, operational, financial, technology including information technology, cyber, compliance, ESG and reputational risks.

#### **4. Regulatory Requirements**

Risk Management Policy is framed as per regulatory requirement of The Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 .

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## 5. Risk Management Framework

We adopt a systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. We believe that this would ensure mitigating steps proactively and help achieve stated objectives.

These components are interrelated and drive the Enterprise wide Risk Management with focus on below elements:



### 5.1 Risk Universe Analysis

The risk universe encompasses all potential risks that an organization might face, both internal and external, across various dimensions such as strategic, operational, financial, information technology including cyber security, regulatory, and reputational risks. Understanding the risk universe is fundamental to effective Enterprise Risk Management (ERM), as it provides a comprehensive view of the possible threats that could impact the organization's objectives. By mapping out the risk universe, we can prioritize risks, allocate resources efficiently, and implement robust risk mitigation strategies tailored to our unique risk profile.

### 5.2 Risk Identification

All departments are responsible for identifying risks that could affect the achievement of the company's objectives. Regular risk assessments will be conducted to identify new and emerging risks. There are several techniques to identify risks like:

Risk assessment techniques	Definitions
<b>Safety audit</b>	<i>Engaging safety and environment agencies to conduct the specific audits</i>
<b>Threat analysis</b>	<i>Assessing potential losses arising out of the business environment</i>
<b>Event analysis</b>	<i>Assessing the potential events taking place in the business environment</i>
<b>Hazard study</b>	<i>Assessing the potential hazards associated with the business operations</i>
<b>Interviews</b>	<i>Interviews involve one-on-one or group discussions with stakeholders, subject matter experts, or key personnel to gather their insights and perspectives on potential risks</i>
<b>Brainstorming</b>	<i>Brainstorming involves gathering a group of stakeholders to generate ideas and identify risks through open and collaborative discussions</i>

Risk identification is continuous process and should be followed at each level i.e. Enterprise level, Division level and Business Unit level.

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To identify organization's exposure to uncertainty, risks may be primarily classified as follows:

Risk classification	Definition
<b>Based on type</b>	
<b>Internal Risks</b>	<i>Internal risks arise from the events taking place within the business enterprise. Such risks arise during the ordinary course of a business.</i>
<b>External Risks</b>	<i>External risks arise due to the events triggered in the environment outside the business organization.</i>
<b>Based on control</b>	
<b>Controllable Risks</b>	<i>Controllable risks are those risks where the management is able to implement measures either to prevent those risks or minimize their impact</i>
<b>Uncontrollable Risks</b>	<i>Uncontrollable risks are those risks which the management may not be able to anticipate effectively and will need to resort to detective measures or procedures post the risks has occurred to minimize their impact</i>

### 5.3 Risk Assessment

Risks identified will be assessed based on their potential impact and likelihood. This assessment will be quantified where possible and classified into categories such as high, medium, and low risk.

Rating	Score
Low	0-6
Medium	7-14
High	15-25

#### Risk Assessment Matrix

Highly Likely	(5)					
Likely	(4)					
Possible	(3)					
Unlikely	(2)					

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Highly Unlikely	(1)					
Probability	(1)	(2)	(3)	(4)	(5)	
Consequences	Insignificant	Minor	Moderate	Major	Severe	

Residual risks will be plotted in risk assessment matrix. Residual risks are those risks that remains after all risk mitigation measures have been implemented. Despite the thorough identification, assessment, and proactive management of risks, some level of risk inevitably persists. One exception to risk score is if impact is severe, risk to be rated at-least moderate even if probability is remote.

#### Likelihood of Risk Occurrence:

The likelihood of a risk refers to the probability or chance that a particular event or risk will occur. Assessing the likelihood involves analyzing historical data, trends, and patterns, as well as considering external factors such as market conditions, regulatory changes, and technological advancements. By evaluating the likelihood, we can prioritize risks and allocate resources more effectively to those that are most probable.

Score	Likelihood	Description
1	Highly unlikely	Event may only occur in exceptional circumstances < 5% chance
2	Unlikely	Event could occur in rare circumstances 5% to 20% chance
3	Possible	Event could occur at some point of time 50:50 chances of occurrence or non-occurrence
4	Likely	Event could occur in most circumstances More than 50% but less than 90% chance
5	Highly Likely	Event is expected to occur in most circumstances > 90% chance

#### Potential impact:

The impact of a risk refers to the potential consequences or effects that a risk event may have on an organization's objectives, operations, or assets. The severity of the impact can range from minor inconveniences to Severe losses, depending on the nature of the risk. Impact assessment involves identifying and quantifying the potential damage, disruption, and costs associated with a risk. This can include financial losses, reputational damage, legal liabilities, and operational setbacks. Impact can be derived separately for quantitative and qualitative risks.

#### Quantitative risks:

Quantitative risks are those that can be measured and expressed numerically. These risks often involve data, statistics, and financial metrics that provide concrete figures to assess the likelihood and impact of potential risks based on underlying assumptions.

Level	Description	Ranking Criteria
1	Insignificant	Less than 2.5% impact on EBIDTA
2	Minor	2.5% to 5% impact on EBIDTA

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3	Moderate	5% to 7.5% impact on EBIDTA
4	Major	7.5% to 10% impact on EBIDTA
5	Severe	More than 10% impact on EBIDTA

#### Qualitative risks:

Qualitative risks, on the other hand, are assessed based on subjective judgment and are not easily quantifiable. These risks often involve factors such as reputation, safety, employee morale, and customer satisfaction, which require a more descriptive and scenario-based approach. Methods like interviews, expert opinions, and risk workshops are used to evaluate qualitative risks.

Level	Description	Ranking Criteria
1	Insignificant	<ul style="list-style-type: none"> <li>Negligible impact on market share</li> <li>No impact on reputation</li> <li>No impact on safety</li> </ul>
2	Minor	<ul style="list-style-type: none"> <li>Consequences can be absorbed under normal operating condition</li> <li>Potential impact on market share</li> <li>Potential impact on reputation</li> <li>Safety: Require medical treatment / first aid</li> </ul>
3	Moderate	<ul style="list-style-type: none"> <li>There is some impact on market share</li> <li>There is some impact on reputation</li> <li>Safety: Effect on health requiring at least 24 hours lost time injury (LTI) without any disability</li> </ul>
4	Major	<ul style="list-style-type: none"> <li>Market share will be affected in the short term</li> <li>Reputation is affected in the short term</li> <li>Safety: Partial or total disability</li> </ul>
5	Severe	<ul style="list-style-type: none"> <li>Serious diminution in reputation</li> <li>Sustained loss of market share</li> <li>Safety: Possible loss of life</li> </ul>

#### 5.4 Risk Response

Risk mitigation involves identifying the range of options for treating risk. Gaps will then be identified between what mitigation steps are in place and what is desired. The action plans adopted will be documented and its implementation will be tracked as part of the reporting process. Following strategies will be adopted for risk mitigation.

Mitigation strategy	Definitions
<b>Avoidance</b>	This strategy involves eliminating the risk by deciding not to engage in the activity that generates the risk. It is often used when the potential negative impact outweighs the benefits of pursuing the activity.
<b>Transfer</b>	Risk transfer involves shifting the potential impact of a risk to a third party. This is commonly done through insurance contracts, outsourcing, or other agreements where another entity assumes the risk on behalf of the organization.
<b>Sharing</b>	Sharing risk involves distributing the risk among multiple parties. Joint

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	ventures and partnerships are examples where risks and rewards are shared among participants, reducing the burden on any single entity.
<b>Reduction</b>	Reduction involves taking steps to decrease the severity or frequency of a risk. This can be achieved through various means, such as improving processes, training employees, or enhancing security measures.
<b>Minimization</b>	Acceptance involves to accept the risk without taking any action. This approach is typically chosen when the cost of mitigation exceeds the potential impact of the risk or when the risk is deemed negligible.

\* Efforts should be given to adopt green coded strategies. Red coded strategies to be adopted in extreme conditions.

**Effectiveness of mitigation plan:** Mitigation controls adopted will be assessed as below:

Effectiveness of mitigating controls	Definitions
Not available –	There are no documented strategies or procedures in place to address risks
Ineffective	The plan fails to achieve its intended objectives
Partially effective	The plan shows measurable outcomes in reducing risks, but there may still be areas for improvement
Optimal	The plan not only meets but often exceeds its objectives

Ownership and responsibility for each of those risk mitigation steps will then be assigned. This will be captured in a 'Risk Assessment and Control Matrix' which comprises of the top key risks.

### 5.5 Reporting

The Risk Manager appointed by Risk Management committee of Board shall take lead for the risk management process and shall provide updates to the Risk Management Committee and Board of Directors. The Risk manager should provide updates to Risk management Committee about movement of current risks, new risks identified and emerging risks applicable to business.

Risks will be continuously monitored and reviewed; and the effectiveness of the controls will be ensured. The risk action plans will be continuously assessed to ensure changing circumstances do not alter risk priorities.

### 5.6 Policy Review

This policy will be reviewed every year to ensure effectiveness and its continued application and relevance to the business.

## 6. Risk Management structure

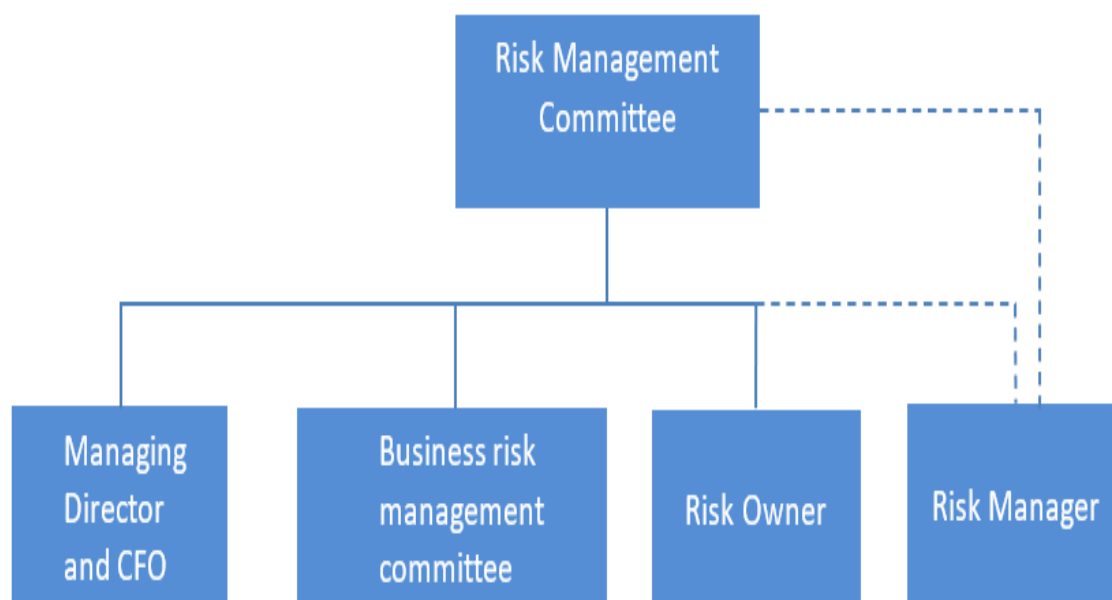


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The Risk and compliance management committee (RMC) of The Board is responsible for overseeing the development and implementation of the riskmanagement framework and maintaining an adequate monitoring and reporting mechanism.

The RMC is also responsible for reviewing and approving the risk management framework.

Framework for Enterprise Risk Management by the company is given below:



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**Roles and Responsibilities:** The key responsibilities of various partners to the policy is mentioned below:

#### **i. Risk Manager**

The Risk Manager is accountable for:

- Co-ordinating and supporting the risk management process,
- Reporting risks to BRMC and RMCs, or the leadership team,
- Improving risk management capabilities.

#### **ii. Risk Owner Responsibilities**

The risk owner is the owner of the underlying business process in which risk(s) exist. The risk owner is usually a member of management and has accountability for:

- Managing the risk(s) to the level approved.
- Escalating occurred risks, incidents and / or major changes in risk exposure.
- Communicating and reporting the risk(s).
- Continuously monitoring the risk(s).

#### **iii. Business Risk Management Committee**

Business Risk Management Committee is responsible for ensuring that risks are identified, analyzed, evaluated and mitigated. The committee should meet at least twice in a year. The committee will include all function heads. The committee will be accountable for:

- Developing a sustainable control environment to manage significant risks.
- Meeting regularly with the key risk management functional leaders.
- To develop strategic plans and direction for the organization to support the objectives and priorities of the organization.

**Finolex Industries Limited****Risk Management Policy****7. Policy applicability**

This revised policy is application from immediate effect.

<b>SUMMARY SHEET</b>	
<b>Title</b>	Finolex Industries Limited Risk Management Policy
<b>Purpose</b>	To ensure that relevant risks are considered in the business decisions and risk management processes are followed.
<b>Personal Scope</b>	1. General Policy 2. Functional Policy
<b>Geographic Scope</b>	1. Company Policy 2. Plant level Policy
<b>Target Audience</b>	All employees
<b>Version No.</b>	2.0
<b>Effective date of Current Version</b>	February 07, 2024
<b>Effective date of Original Version</b>	July 26, 2014
<b>Revision History</b>	Revision 3
<b>Approved By</b>	Authorized Person(s)
<b>Issued By</b>	Risk Management Committee
<b>Owner/ Contact Information</b>	Authorized Person(s)

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#### Annexure - Risk Universe

Types of Risk	Examples
<b>Business Continuity Management</b>	<ul style="list-style-type: none"> <li>▪ Reduction in business vitality (due to change in business strategy, customer spending patterns, product discovery &amp; development, changing technology, etc.).</li> <li>▪ Loss of intellectual property &amp; trade secrets.</li> <li>▪ Asset Safeguard Risk &amp; Utilisation risk</li> <li>▪ Brand Risk/ Reputation Risk</li> <li>▪ Business Model Risk/ Market Dynamics Risk</li> <li>▪ Capacity Optimization risk</li> <li>▪ Corporate Governance Risk</li> <li>▪ Currency Fluctuation Risk</li> <li>▪ Global Integration Risk</li> <li>▪ Government Subsidies/ Grants Risks</li> <li>▪ Input Price Volatility Risk</li> <li>▪ Investors Grievance Risk</li> <li>▪ Merger and Acquisition Risk</li> <li>▪ Plant &amp; Process Strategy Risk</li> <li>▪ Share price volatility risk</li> <li>▪ Raw material availability risk</li> </ul>
<b>Information Technology</b>	<ul style="list-style-type: none"> <li>▪ Information / Cyber Security Risk</li> <li>▪ IT Data Centre Risk</li> <li>▪ Social Media Management Risk</li> <li>▪ Systemic Risk</li> <li>▪ Technology Upgradation Risk</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>▪ Violation of laws or regulations governing areas such as               <ul style="list-style-type: none"> <li>▪ Environmental</li> <li>▪ Employee health &amp; safety.</li> <li>▪ Selling and promotion of our products.</li> <li>▪ Protection of personal data in accordance with global data protection requirements.</li> <li>▪ Local tax and statutory laws</li> </ul> </li> </ul>
<b>Financial &amp; Reporting</b>	<ul style="list-style-type: none"> <li>▪ Currency exchange</li> <li>▪ Funding &amp; cash flow</li> <li>▪ Credit risk</li> <li>▪ Financial misstatement</li> </ul>
<b>Human Assets</b>	<ul style="list-style-type: none"> <li>▪ Contract Labour &amp; Contractor Risk</li> <li>▪ Management Fraud Risk</li> <li>▪ Manpower Productivity, Requisition &amp; Succession Planning</li> <li>▪ Organizational Structure Risk</li> </ul>

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Types of Risk	Examples
	<ul style="list-style-type: none"> <li>Violence at work/sexual harassment Risk</li> <li>Whistle blower Risk</li> </ul>
Market	<ul style="list-style-type: none"> <li>Competition Risk/ Sector Concentration Risk</li> <li>Customer continuity and satisfaction risk</li> <li>Dealer Channel Management Risk</li> <li>Forecasting Risk</li> <li>Product Liability Risk</li> <li>Product Pricing Risk</li> <li>Quality Adherence Risk</li> <li>Substitute Technology Risk</li> </ul>
ESG	<ul style="list-style-type: none"> <li>Climate change risk</li> <li>Safety risk</li> <li>Environment risk</li> </ul>

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#### Annexure – List of Identified Risks for FIL

Sl. No.	Function	Risk
1	Finance and Accounts	Interest Rate Risk
2	Human Resources	Code of Conduct Risk
3	Human Resources	Succession Planning
4	Human Resources	Contract Labour Risk
5	Human Resources	Violation of Human Rights Risk
6	Information Technology	Cyber Security Risk
7	Information Technology	Data Protection risk (Digital Personal Data Protection Act, 2023)
8	Information Technology	IT Disaster Recovery Risk
9	Legal and Compliance	Compliance Risk
10	Operations (Pipes & Fittings)	Intellectual Property Risks
11	Operations (Pipes & Fittings)	Quality Adherence Risk (Including BIS compliance)
12	Operations (Pipes & Fittings)	Sub-contractor Dependency Risk
13	Operations (Pipes & Fittings), (Resin)	Health, Safety and Environment
14	Operations (Pipes & Fittings), (Resin)	Increase in Maintenance cost due to Aging of Fixed assets.
15	Operations (Pipes & Fittings), (Resin)	Interruption in supply of utilities (Power & Water)
16	Operations (Pipes & Fittings), (Resin)	Natural Calamity & Disaster Management Risk
17	ESG	Climate Change Risk
18	ESG	Risk of Non-compliance with ESG norms
19	Procurement	Vendor Concentration Risk
20	Procurement	Increased procurement risk due to non-tracking of relevant KPIS's.
21	Procurement	Vendor Evaluation Risk
22	Procurement	Input Price Volatility & Exchange Rate Fluctuation Risk
23	Sales and Marketing	Customer Complaint Handling Risk
24	Sales and Marketing	Dealer Channel Management Risk
25	Sales and Marketing	Technology Upgradation & Competition Risk
26	Sales and Marketing	Brand Risk/ Reputation Risk