

## Risk Management Policy and Procedures

### Preface

The AVT Natural Products Limited's (AVTNPL) Risk Management Policy sets out AVTNPL's approach to risk and its management together with the means for identifying, analyzing, monitoring and managing risk in order to minimize its frequency and impact.

This document lays down the framework of Risk Management at AVTNPL and defines the policy for the same. This document shall be under the authority of the Board of the AVTNPL. It seeks to identify risks inherent in any business operations of the AVTNPL and lays down the mitigation methods which are periodically reviewed and modified in a manner commensurate with the size and complexity of the business.

### OBJECTIVE

The objective of Risk Management task at AVTNPL is to preserve shareholder value to the extent practically feasible by identifying and mitigating major financial, operational, sectoral, sustainability, cyber security, and any other internal and external business risk. An enterprise-wide risk management framework is applied in a manner such that the effective management of risks at different levels and different functions is an integral part of every employee's job. The Risk Management Committee shall provide oversight and will report to the Board of Directors who have the sole responsibility for overseeing all risks.

### Regulatory

Risk Management Policy is framed as per the following regulatory requirements:

#### A. Companies Act, 2013:

##### 1. Provisions of the Section 134(3)

"There shall be attached to financial statements laid before AVTNPL in general meeting, a report by its Board of Directors, which shall include a statement indicating development and implementation of a **risk management** policy for AVTNPL including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the AVTNPL."

##### 2. 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."

3. Schedule IV [Section 149(8)] :

Code For Independent Directors :

II. Role and functions:

"The independent directors shall:

(1) 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

(4) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible” .

4. Regulation 17(9) (a) & (b) of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements 2015 : Key functions of the Board

The board should fulfill certain key functions, including:

- a. The listed entity shall lay down procedures to inform members of board of directors about risk assessment and minimization procedures.
- b. The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.

5. Regulation 21 of Securities Exchange Board of India (Listing Obligations and Disclosure Requirements 2015

- a. The board of directors shall constitute a Risk Management Committee.
- b. The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit



## **RISK MANAGEMENT PROGRAM**

Risk management Program can be defined as 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 unfortunate events or to maximize the realization of opportunities.

To achieve this, the Company has defined the responsibility and authority of the Company's Board of Directors, to oversee and manage the risk management program, while conferring responsibility and authority on the Company's senior management to develop and maintain the risk management program in light of the day-to-day needs of the Company. Regular communication and review of risk management practice provides the Company with important checks and balances to ensure the efficacy of its risk management program.

The key elements of the Company's risk management program are set out below:

- Establishing the Context
- Risk Assessment (identification, analysis & evaluation)
- Risk Treatment (mitigation plan)
- Monitoring, review and reporting
- Communication and consultation

### **Establishing the Context**

Articulate the objectives and define the external and internal parameters to be taken into account when managing risk, and sets the scope and risk criteria for the remaining process.

### **Establishing the External Context**

Understanding the external context is important in order to ensure that the objectives and concerns of external stakeholders are considered when developing risk criteria.

The external context can include, but is not limited to:

- The social and cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local;
- Key drivers and trends having impact on the objectives of the organization; and
- Relationships with, perceptions and values of external stakeholders



## **Establishing the Internal Context**

The risk management process should be aligned with the organization's culture, processes, structure and strategy. Internal context is anything within the organization that can influence the way risks will be managed.

This can include, but is not limited to:

- Governance, organizational structure, roles and accountabilities;
- Policies, objectives, and the strategies that are in place to achieve them;
- Capabilities, understood in terms of resources and knowledge (e.g. capital, time, people, processes, systems and technologies);
- The relationships with and perceptions and values of internal stakeholders; the organization's culture; Information systems, information flows and decision-making processes
- Standards, guidelines, and models adopted by the organization.

## **Risk Assessment**

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation.

## **Risk Identification**

In order to identify and assess material business risks, the Company defines risks and prepares risk profiles in light of its business plans and strategies. This involves providing an overview of each material risk, making an assessment of the risk level and preparing action plans to address and manage the risk.

The Company majorly focuses on the following types of material risks:

- Commodity risk;
- Business risk;
- Foreign exchange risk;
- Technological risks;
- Strategic business risks;
- Operational risks;
- Quality risk;
- Competition risk;
- Realization risk;
- Cost risk;
- Financial risks;
- Human resource risks; and
- Legal/regulatory risks.



## **Risk Analysis**

Risk analysis involves:

- consideration of the causes and sources of risk
- the trigger events that would lead to the occurrence of the risks
- the positive and negative consequences of the risk
- the likelihood that those consequences can occur.

## **Risk Evaluation**

The purpose of risk evaluation is to assist in making decisions, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation. Risk evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered. Based on this comparison, the need for treatment can be considered.

## **Risk Treatment**

Risk treatment involves selecting one or more options for modifying risks, and implementing those options. Once implemented, treatments provide or modify the controls. Risk treatment involves a cyclical process of:

- Assessing a risk treatment;
- Deciding whether residual risk levels are tolerable;
- If not tolerable, generating a new risk treatment; and
- Assessing the effectiveness of that treatment.

## **Monitoring and review**

In order to ensure that risk management is effective and continues to support organizational performance, processes shall be established to:

- Measure risk management performance against the key risk indicators, which are periodically reviewed for appropriateness
- Periodically measure progress against, and deviation from, the risk management plan
- Periodically review whether the risk management framework, policy and plan are still appropriate, given the organizations' external and internal context
- Report on risk, progress with the risk management plan and how well the risk management policy is being followed
- Periodically review the effectiveness of the risk management framework.
- Structured scientific and analytical tools may be used for this purpose.



## Risk Reporting

Reporting is an integral part of any process and critical from a monitoring perspective. Results of risk assessment need to be reported to all relevant stake holders for review, inputs and monitoring.

### Risk Management Committee

The Company has a committee of the Board, namely, the Risk Management Committee, which was constituted with the overall responsibility of overseeing and reviewing risk management across the Company.

The terms of reference of the Risk Management Committee are as follows:

- review of strategic risks arising out of adverse business decisions and lack of responsiveness to changes;
- review of operational risks;
- review of financial and reporting risks;
- review of compliance risks; •
- review or discuss the Company's risk philosophy and the quantum of risk, on a broad level that the Company, as an organization, is willing to accept in pursuit of stakeholder value;
- review the extent to which management has established effective enterprise risk management at the Company;
- inquiring about existing risk management processes and review the effectiveness of those processes in identifying, assessing and managing the Company's most significant enterprise-wide risk exposures;
- review the Company's portfolio of risk and consider it against it's risk appetite by reviewing integration of strategy and operational initiatives with enterprise-wide risk exposures to ensure risk exposures are consistent with overall appetite for risk; and
- review periodically key risk indicators and management response thereto.

### Broad Principles

- The Board has to review the business program at regular intervals and develop the Risk Management Policy which shall encompass laying down guiding principles on proactive planning for identifying, analyzing and mitigating all the material risks, both external and internal. We have sought to classify the types of risk as external business and operational.
- 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



Business Process and Risk Management Committee along with their considered views and recommendations for risk mitigation.

- Analysis of all the risks thus identified shall be carried out by Sr. Vice President and CFO through discussion and brain storming with vertical / functional heads and a preliminary report thus finalized shall be placed before the Board of Directors.

## **ROLE OF SR. VICE PRESIDENT AND CFO**

The role of the Sr. Vice President and CFO shall include the evaluation of risk management systems, the examination of the risk program, assessing the mitigation measures and suggesting improvements and greater risk mitigation measures, and examination in detail the business processes which may carry risks and to finally report the Board of Directors.

## **APPLICABILITY**

This Policy shall come into force with effect from 10<sup>th</sup> November 2021.

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