Risk Management Policy

Enterprise Risk Management (ERM) Process

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Vanya Steels Private Limited

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1. Introduction

Vanya Steels Private Limited ("the Company") is dedicated to establishing a robust risk management framework to address potential threats and uncertainties in the steel manufacturing industry. We operate in an interconnected world with stringent regulatory and environmental requirements, increased geopolitical risks, and fast-paced technological disruptions that could impact the organisation's value chain. Vanya Steels strives to implement an Enterprise Risk Management (ERM) process to provide a holistic view of aggregated risk exposures and facilitate more informed decision-making.

This policy is inspired by best practices, principles, and processes for identifying, evaluating, mitigating, and monitoring risks that may impact the Company's strategic goals and operations.

In its journey towards risk intelligence, a robust governance structure has been developed across the organisation. The Board of Directors has constituted a Committee of the Board called the Risk Management Committee. A Group Risk Review Committee has been formed at the Senior Management level to drive the ERM process across the Group.

2. Objectives

Protection of Assets: Safeguard the Company's tangible and intangible assets.

Sustainable Growth: Ensure long-term growth and stability by proactively managing risks.

Regulatory Compliance: Adhere to all relevant legal and regulatory requirements.

Value Creation: Enhance shareholder value by minimising negative impacts from potential risks.

3. Scope

This policy applies to all Vanya Steels Private Limited employees, departments, and operations, including its subsidiaries, associates, and joint ventures. It covers all types of risks: strategic, operational, financial, compliance, and reputational.

4. Risk Management Framework

4.1 Risk Identification

Internal Sources:

- Operational Processes: Equipment failure, production inefficiencies, health and safety incidents.
- Financial Activities: Budget overruns, fraud, credit risks.
- Human Resources: Talent acquisition, employee turnover, labour disputes.

- IT Systems: Cybersecurity threats, system failures, data breaches.

External Sources:

- Market Dynamics: Commodity price fluctuations, competition, demand-supply imbalances.
- Economic Changes: Currency fluctuations, inflation, economic downturns.
- Regulatory Environment: Changes in environmental laws, tax regulations, and trade policies.
- Technological Advancements: Innovation in steel manufacturing, automation, and new material development.
- Natural Disasters: Earthquakes, floods, extreme weather conditions.

4.2 Risk Assessment

- **Likelihood and Impact Analysis*:*** Using a risk matrix, evaluate each identified risk's probability and potential impact.
- **Risk Categorization:** Classify high, medium, or low risks based on their assessed likelihood and impact.

4.3 Risk Mitigation

Risk Avoidance:

- Identify high-risk activities and implement measures to eliminate or avoid them.

Risk Reduction:

- Develop and implement strategies to minimise the likelihood or impact of risks, such as adopting advanced safety protocols, diversifying suppliers, and enhancing process efficiencies.

Risk Sharing:

- Transfer risks through insurance policies, strategic partnerships, and outsourcing.

Risk Acceptance:

- Accept certain risks when the cost of mitigation exceeds the benefits while continuously monitoring and managing these risks.

4.4 Risk Monitoring and Reporting

Continuous Monitoring:

- Establish a continuous monitoring system to track risk indicators and the effectiveness of mitigation measures.

Reporting Mechanisms:

- Develop a structured reporting process to provide regular updates on risk status to senior management and the Board of Directors. This includes quarterly risk reports, incident reports, and annual risk reviews.

5. Risk Governance

5.1 Board of Directors

- Assume ultimate responsibility for the risk management framework.
- Set up the Risk Management Committee.
- Approve and periodically review the Risk Management Policy.
- Ensure the alignment of risk management activities with the Company's strategic objectives.

5.2 Risk Management Committee

- Chaired by an Independent Director.
- Comprises CEO, Plant Directors, CFO, Legal.
- Oversee the implementation of the Risk Management Policy.
- Review risk assessments and mitigation plans.
- Report to the Board of Directors on risk-related matters, providing recommendations and updates.

5.3 Risk Management Team

- Formed with representatives from key departments such as Plant Operations, Finance, HR, IT, and Legal
- Responsible for identifying and assessing risks within their respective areas.
- Implement and monitor risk mitigation measures.
- Report to the Risk Management Committee regularly.

6. Key Risk Areas

6.1 Macroeconomic Risks

- Overcapacity, oversupply in the global steel industry, and increased import levels may adversely affect steel prices, impacting profitability.
- Slower than expected pace of growth in India, coupled with expansion in domestic steel capacity, may result in lower-than-expected realisations
- Newer developments in the competitive business environment and potential consolidation among competitors may adversely impact the Company's financial condition and prospects.

Mitigation Strategies

- Expansion and optimisation of the production line
- Diversification of product portfolio
- Development of alternate markets

6.2 Regulatory Risks

- Non-compliance to increasingly stringent regulatory environmental norms may result in liabilities and damage to reputation.
- Removal of favourable trade measures, such as anti-dumping laws, countervailing duties, etc., may impact the Company's business and prospects.

Mitigation strategies

- Focus on compliance. Stay updated with regulatory changes and ensure compliance through regular audits.
- Continuous Dialogue with regulatory authorities for greater clarity and availing legal consultations.
- Working with industry associations towards simplification of rules, a predictive policy regime and transition time for regulatory changes

6.3 Financial Risk

- Substantial working capital debt on the balance sheet may have an adverse impact on the company's ability to raise finance at competitive rates.
- Delays in receiving payments and steel market volatility may affect the company's working capital cycle and access to financial markets.
- Changes in assumptions underlying the carrying value of certain assets may result in the impairment of such assets.

Mitigation strategies

- Maximising operational cash flow. Maintain adequate cash reserves and access to credit facilities to ensure liquidity.
- Integration of business planning and cashflow projections with liquidity management
- Use hedging strategies to mitigate foreign exchange risks.
- Conduct thorough credit assessments and maintain strong credit management practices.

6.4 Operational Risks

- The steel industry is prone to high fixed costs and volatility in raw materials and energy prices. Limitations or disruptions in the supply of raw materials could adversely affect the Company's profitability
- Failure of critical manufacturing plants may adversely impact business operations.
- Failure of critical information systems (ERP)/ servers that control the Company's data may adversely impact business operations.

- Violating safety standards and unsafe acts and conditions may lead to Lost-Time Injuries (LTIs) or fatalities, resulting in stoppage of operations, loss of personnel, and damage to assets and reputation.
- The Company operates with one leased plant. Non-renewal of leases may result in lower production and impact profitability.

Mitigation strategies

- Establishing sources of supplies from alternate geographies
- Enhancing backwards and forward integration capability and leveraging from past learnings and expertise
- Dialogue with Lessor for greater clarity and availing legal consultations for timely resolution
- Committed to Safety drives across the Company by enforcing stringent safety protocols and regular training programs to ensure a safe work environment.

6.5 Market-Related Risks

- Steel is a cyclical industry, and excess volatility in the steel and raw material markets may adversely impact the Company's financial condition.
- Competition from substitute materials or changes in manufacturing processes may decrease product demand, resulting in a loss of market share.
- Product liability claims could have an adverse impact on the Company's finances.

Mitigation strategies

- Development of value-added products and enhanced services and solutions
- Strengthening contractual agreements

6.6 Climate Change Risks

- As of May 2018, 195 United Nations Framework Convention on Climate Change (UNFCCC) members have signed the Paris Agreement, and 176 countries, including India, have become party to it. The Agreement aims to monitor rising global temperatures and intensify the actions required for a sustainable, low-carbon future. As we advance, the steel industry will face stringent international and domestic Greenhouse Gas (GHG) emissions regulations. Increasingly stringent climate control regulations may impact the Company's operations and prospects.

Mitigation strategies

- The Company is striving for green steel.
- Implement sustainable practices to comply with environmental laws and minimise ecological impact.
- We have continuously improved our use of renewable energy by updating our captive power purchase agreements and will continue investment in environment-related projects
- Collaboration with academic/research institutes for projects on climate change issues

6.7 People Risks

- Any labour dispute or social unrest in regions where the Company operates may adversely affect its operations and financial condition.
- Loss of one or more members of the Senior Management, or inability to attract and retain employees, may affect the Company's business and prospects
- Social unrest with pollution concerns may have a negative impact on production.

Mitigation strategies

- Build relations with key stakeholders, including influential local/regional people, interest groups, and bureaucracy across levels of administrative machinery (taluka to state level), to address labour or social unrest.
- Adhere to labour laws and maintain healthy relations through effective communication and dispute-resolution mechanisms.
- Succession planning for Senior Management to ensure continuity in business
- People-related policies for attracting and retaining talent

6.8 Strategic Risks

- The Company is growing its Indian operations through organic and inorganic routes. However, it may not be able to realise the anticipated benefits of these growth plans, which could adversely impact financial condition and reputation.
- The Company may be subject to business risk, including potential delays in completing the proposed CAPEX plan, transaction, and the proposed plan not consummating successfully

Mitigation strategies

- Strong engineering and project team to commission the expansion project within budgeted time and cost
- Ensuring that learnings from previous projects are applied for improved execution and faster ramp-up of production •
- Deputation of an experienced team along with strong review and governance to accelerate the performance of the acquired assets
- Bring Vanya Steels expertise to the acquired assets in operations, maintenance and marketing to ensure high-capacity utilisation, cost competitiveness and a better product mix
- Experienced team-driving focused consultations with the relevant stakeholders in Europe

6.9 Reputational Risks

- Public Perception
- Media Coverage
- Corporate Governance Issues

Mitigation strategies

- Maintain transparent communication with stakeholders and address public concerns promptly.
- Monitor media coverage and engage in proactive media management.
- Uphold high standards of corporate governance and ethical practices.

7. Risk Culture

- **Training and Awareness**: Conduct regular training sessions to enhance employee risk awareness and management capabilities.
- **Communication:** Foster open communication channels for reporting and discussing risk-related issues.
- **Performance Metrics:** Integrate risk management into performance evaluation metrics to incentivise proactive risk management.

8. Review and Improvement

- **Regular Reviews:** Conduct annual reviews of the Risk Management Policy to ensure its relevance and effectiveness.
- **Continuous Improvement:** Adapt and improve the risk management framework based on feedback, internal audits, and changes in the risk environment.

9. Conclusion

Vanya Steels Private Limited is committed to maintaining a robust risk management system that ensures resilience and long-term success. This policy will be reviewed annually and updated to reflect internal and external risk landscape changes.

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