



AMI ORGANICS LIMITED

RISK MANAGEMENT POLICY

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RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

1. Background of “Policy”, “Risk” and “Risk Management”

Pursuant to Regulation 21 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, Risk Management Policy (“Policy”) should provide for Framework for identification, monitoring & evaluating various internal and external risks including financial, operational, sectoral, sustainability (ESG related), information risk, cyber security risk, disaster recovery and business continuity plan etc. Hence this Policy provides framework towards risk identification, analysis & prioritization of risks, development of risk mitigation plans and reporting on the risk environment of the Company.

Risk: Operational Risk is loss arising out of failure of processes, people, systems or external factors. In addition, there are Market Risk, Credit Risk, Liquidity Risk which may lead to adverse implications in financials of the company. For e.g. an event which can prevent, hinder or fail to further or otherwise obstruct the company in achieving its objectives. A business risk is the threat that an event or action will adversely affect company’s ability to maximize stakeholder value and to achieve its business objectives. Risk may result in additional costs or loss of funds or assets. It can result in damage, loss of value and /or loss of an opportunity to enhance the enterprise operations or activities. Adverse price movements in raw materials, finished goods, recoverability and losses, financial leverage, operating leverage related issues, working capital management and concentration of sources of funding including liquidity risk may also create financial stability of the entity.

Risk is the product of :

- Probability of occurrence of an event (Frequency)
- Impact of such occurrence to an enterprise. Impact may be financial loss, reputational loss, illiquidity and defaults, process and operational obstacles, production bottlenecks, sustainability and survival issues, critical data and critical process loss, loss of shareholders’ wealth, credit standing of company etc.

Further, as mentioned above, Risk may arise due to :

- Internal factors like People Process or System
- External factors like Emerging scenario, digitisation and innovation, geo-political risks, macro level supply issues, environment regulation changes leading to sustainability issue with existing model, vendor frauds, prices of raw materials and finished goods, higher level of disasters etc.

Risk Management : Risk Management is a systematic approach to recognise risk, work out its tolerance levels, reporting of risks and is based on principle of taking calculated risks only. Thus, it involves :

- Identification of Risks.
- Measurement / Rating of risks
- Deciding tolerance level or appetite level of risks
- Mitigation plan of risks whichever exceed Tolerance Level
- Monitoring the risk levels on a continuous basis

RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

2. SCOPE

This policy is applicable to all the functions, departments and geographical locations of the Company. The purpose of this Policy is to define, design and implement a risk management framework across the Company to identify, assess, manage and monitor risks. Aligned to this purpose is to identify potential events that may affect the Company and manage the risk within the risk appetite and provide reasonable assurance regarding the achievement of the Company's objectives. This will present a wide approach to ensure that key aspects of risk that have a wide impact are considered in its conduct of business.

3. POLICY OBJECTIVES

Key objectives of the policy are :

- To provide holistic framework of identification and measurement of risks
- To provide holistic framework in relation to evaluation of controls / mitigants and identify risks which falls beyond the levels of appetite
- To provide guidance in respect of special risks like disaster and business continuity plan, emerging risks, cyber security and information / data security related risks.

4. Risk Governance Framework :

A Decentralized Risk Management involving the whole organization is required to cater to various risks pertaining to different functions of the Company. Hence, following Risk Governance Framework is created within the Company :

- Risk Management Committee** : This Committee will oversee implementation of mechanism of Operational Risk Management and guide the organization towards that. The Committee will report to the Board. The Committee has atleast 1 independent director.
- Chief Risk Officer (CRO)** : CRO is appointed by the Risk Management Committee in addition to Nomination and Remuneration Committee. CRO's role will be to facilitate risk management mechanism through decentralized approach, providing support and guidance to the whole organization.
- Three Lines of Defense** : For proper Governance and control, the organization has three lines of defense.

First line of defense include actual functional owners throughout the organization, mainly consists of MD, Eds, KMPs, other Senior Management and Functional Heads. The company is run by these officials and they are supposed to take care of risks within their own functional areas.

Second line of defense include Chief Compliance Officer, Chief Risk Officer who do not participate in day to day operations of the company but facilitate compliance risk management process through support and guidance for other functions

RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

Third line of defense is internal auditors who reports their observations directly to Audit Committee.

(iv) Risk Champions / Risk Co-ordinators (RC Group) : The organization has appointed one official from each function, who will be responsible for carrying out risk management initiative within their own functional area. This will be under guidance of CRO and their own functional Head. This group is called RC- Group and will be key instrumental for decentralized effective implementation of risk management mechanism. RC-Group will be trained and guided by CRO from time to time on process of identification of risk, rating of risk, mitigation plan and evaluating the risk management processes.

5. Identification of Risks :

This would envisage identification of the potential list of events/ perils/ risks/ factors that could have an adverse impact on the organization. These may be even those events which actually never happened but probabilities of those happening may exist. Hence, identification of risks just from past events, audit observations is not complete. It requires a brain storming approach and proactive though process.

As a few e.g. Risk Identification may relate to the following areas :

- **Strategic Risk:** Competition, inadequate capacity, high dependence on a single customer/vendor.
- **Business Risk:** Project viability, process risk, technology obsolescence/ changes, development of alternative products.
- **Finance Risk:** Liquidity, credit, currency fluctuation, commodity price fluctuations including oil and fuel price impact
- **Environment Risk:** Non-compliances to environmental regulations, risk of health to people at large.
- **Personnel Risk:** Health & safety, high attrition rate, incompetence.
- **Operational Risk:** Process bottlenecks, non-adherence to process parameters/ pre-defined rules.
- **Regulatory Risk:** Non-compliance to statutes, change of regulations.
- **Technology Risk:** Innovation, obsolescence, digitisation.
- **Political Risk:** Changes in the political environment, regulation/ deregulation due to changes in political environment, geo-political risks, war, unrest etc
- **Operational issues** including machine shut-down, On-Time in Full process issue, Through-put issues relating production capacity etc.
- **Cyber Security**
- **Data and Information Security**
- **Governance and Fraud**

6. Control / Mitigation of Risks :

Control will be documented for each risk identified as above. Apart from mentioning existing control, nature of the control will also be mentioned such as:

- Operating Effectiveness of Control i.e. the extent to which it can be by-passed or failed

RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

- Design of Control may include aspects like
 - Whether the control is Automated / Manual or partly both
 - Whether the control is Preventive / Detective or partly both
 - Whether the control require sign-off of Internal official / Independent external official

7. Measurement and Rating / Evaluation of Risks :

Identified risks are given Rating based on Rating to its Likelihood and Impact. This is based on 4 x 4 matrix as indicated below:

| Risk = Impact × Likelihood | | | | | |
|---|--------------------------|---|---|----|----|
| Likelihood Frequency % Probability | 4 | 4 | 8 | 12 | 16 |
| | 3 | 3 | 6 | 9 | 12 |
| | 2 | 2 | 4 | 6 | 8 |
| | 1 | 1 | 2 | 3 | 4 |
| | | 1 | 2 | 3 | 4 |
| | Impact (Severity) | | | | |

| | |
|-----------------|------------------|
| 1 to 3 | Low |
| 4 to 6 | Medium |
| 7 to 9 | High |
| 10 to 16 | Very High |

Above chart indicates that,

- Likelihood for each risk will be rated from rating of 1 to 4 (low to very high)
- Impact / severity for each risk will be rated from rating of 1 to 4 (low to very high)
- A combined rating is provided based on combination of likelihood and impact rating.

The risks will be identified by individual department RC-Group member and the list then ratified / signed by the head of the department.

Above functional level Risk Summary of Very High, High, Medium and Low risks will be consolidated to arrive at Organisation level identified risks again categorized into Very High, High, Medium, Low Risks. Very high and High level of risks will be presented before RMC on a regular basis alongwith the process as to how risk can be mitigated. There can be below four approaches to treat these risks

- Avoid the risk : That's avoid entering into a venture or buying a special machinery or modernizing a plant which have specially high level of risks or operating costs
- Transfer Risk : Taking insurance, hedging or outsourcing activities. Such a control measure may reduce the impact of risks

RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

- Reduce Risk : Taking control measures like maker – checker, proper authorization matrix, control MIS, reconciliations, inventory control, ERP with OTIF process implementation for overall end – to- end process control from raw material to finished goods including inventory and packing materials, logistics etc.
- Accept Risk : These are the risks with which organization has to live and cannot be avoided. For e.g. Business and R&D related risks

Appetite Levels Risk:

Risk Appetite or Risk Tolerance is the maximum acceptable risk level that Company can tolerate. Any risk within the appetite level or tolerance level will be accepted while if it is higher than appetite level, will be treated as follows:

- Either Getting approval to increase tolerance level for particular risk from the appropriate authority
- OR enhance the control levels so that risk is reduced to appetite level.

Risk Appetite levels will be designed by the organization and approved by the RMC in next level after doing further analysis. These appetite levels may be reviewed from time to time.

Designing Risk Appetite levels depends upon the various aspects like financial strength of the company, broad policy and mission statement of the organization etc. A few e.g. of Appetite levels are :

- Appetite Level: 10% of last year's Gross Revenue. This is based on actual incident reporting of operational loss comprising of financial numbers.
- Zero Tolerance for financial / corporate Frauds, wrongful abuse of position for gains, Misconduct, Unfair Business Conduct including non-disclosure of Conflict of Interest
- Zero Tolerance to Regulatory Violation leading to Regulatory Penalties or Actions
- **Medium Level Tolerance for various operational risk.** To quantify Medium Level Tolerance, the multiplication of likelihood and impact rating should be 6 or less than 6 at the post control risk level. This is based on other operational risks which either could not be quantified or where there is no incident reporting but appearing in risk register with risk rating post self-risk assessment
- **High or Very High level of Risk - Any single incident of risk leading to loss of Rs.10 lakh and above.**

Event based Risk Appetite :

Committee approval is sought to work out reporting of Event based risk appetite which may relate to any internal or external event trigger. For e.g. Country specific crisis, Covid next wave related implications, Cyber Attack, Online transaction failures due to major technical issues of digitization, Negative spread in Arbitrage trades for arbitrage fund, negative daily return on liquid funds,

RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

Unplanned compensation payout to any investor or prospective investor to resolve an investor dispute etc.

8. Risk Reportings and MIS:

Adequate Risk Reporting is integral part of Risk Management Framework. Functional Heads are supposed to report on risk profile of their functions, escalation of material risk incident and corrective action. A structural bottom up approach is designed in the organization where CRO will also be able to analyse various information received by him and report to MD and RMC.

Risk Reporting may include the areas of :

- Review of status of Risk Management Framework, also covering assessment of key risks (Very high and High risks)
- Review of trend in number of total risks, very high and high risks
- Material Risk Related incidents or Control failures and corrective actions
- Periodic reporting of number of risks which are exceeding Appetite levels
- Corrective actions in respect of Early Warning Signal / Alert generated on,
 - Credit Risk and possibility of downgrade of credit rating of company
 - Liquidity Risk including asset-liability mismatch related aspects, fund sourcing related aspects
 - ESG related risks
 - Cyber Security risks
 - Information Security and Data security related risks
- Disaster Recovery and business continuity plan : This may include :
 - Review of existing framework of data back-up and retrieval processes
 - Review of mock drills of various disasters in different locations and results / observations therefrom
 - Review of existing business continuity plan mechanism including key aspects like identification of critical functions, running of website and communications with shareholders, lenders during disaster, logistics to take care of critical functionality including payments, settlements of trades, regulatory and stock exchange disclosures etc.

9. Review of the Policy:

The policy will be reviewed and updated on atleast yearly basis by the RMC. The reviews may be due to change in organization structure, production processes and locations, product portfolios, new emerging risks identification and evolvement of risk management initiative in the organization with the time.

RISK MANAGEMENT POLICY - AMI ORGANICS LIMITED

10. Evolve and Refinement:

The concept of Enterprise-wide Risk Management, Risk Assessment, Early Warning Signals etc have just evolved though these have been in the business of in some way. With the time, company and corporate world will evolve further and with experience, is expected to adopt more refined and evolved structures, processes and systems for Risk Management. This may lead to revisions in Risk Management Framework and this policy from time to time.

