S P APPARELS LIMITED

AVINASHI

RISK MANAGEMENT POLICY

1. BACKGROUND

S P Apparels Ltd. (the Company), established in the year 1989 is engaged in the manufacture and export of knitted garments for infants and children. The business activities of the Company carry various internal and external risks.

'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 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 Assessment", means 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",** means, 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", means **t**he systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

"Policy" means Risk Management Policy.

This document lays down the framework of Risk Management at S P Apparels Ltd (hereinafter referred to as the 'Company') and defines the policy for the same. This document has been approved by and is under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

2. OBJECTIVES

The main objectives of this policy includes :

1. 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.
2. To establish a framework for the company's risk management process and to ensure its implementation.
3. Contributing towards more efficient use/ allocation of the resources within the organization
4. Protecting and enhancing assets and company image
5. Reducing volatility in various areas of the business
6. Developing and supporting people and knowledge base of the organization.
7. Optimizing operational efficiency

3. REGULATORY

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

Section 134(3) of the Companies Act, 2013 states that there shall be attached to the financial statements, a report by its Board of Directors which shall include an statement indicating the development and implementation of a risk management policy for the company including the identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company. Section 177(4) of the Act, further stipulates, that Every Audit Committee shall evaluate the internal financial controls and risk management systems. Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 has cast an obligation on the top 100 companies in terms of Market Capitalization to have a Risk Management Committee. Other companies can however voluntarily appoint such a Committee.

S P Apparels Limited, being a listed company is required to adhere to both the Companies Act, 2013 and the Listing Regulations, governed by the Securities and Exchange Board of India (SEBI). Where any stipulation is common between the regulations, more stringent of the two shall be complied with.

4. RISK MANAGEMENT FRAMEWORK:

In principle, risk always results as a consequence of activities or as a consequence of non-activities. Risk Management and Monitoring are important in recognizing and controlling risks.

Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures. The Company adopts a systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating risks proactively and help to achieve stated objectives.

The Company will consider activities at all levels of the organization and its Risk Management with focus on three key elements, viz.,

(1) Risk Identification- detailed study of threats and vulnerability and resultant exposure to various risks.
(2) Risk Monitoring- the probability of risk assumption is estimated with available data and information.
(3) Risk Mitigation- Measures adopted to mitigate risk by the Company.

Risk Identification is obligatory on all vertical; functional heads with the inputs from their team members are required to report the material risks to the Managing Director along with their considered views and recommendations for risk mitigation.

Analysis of all the risks thus identified shall be carried out through participation of the vertical/functional heads and a preliminary report thus finalized shall be placed before the Risk Management Committee. The Risks identified may be Business, Operational and Financial. After analysis, comparison of estimated risks against organization risk criteria is required and the same to be used to make decisions about the significance of risks.

The risk estimation may be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences. The threats and opportunities of the risk is also analysed and the impact on the performance or profit is also assessed.

The identified risk is treated through the process of selecting and implementing measures to mitigate risks. Risk treatment includes risk control/mitigation and extends to risk avoidance, risk transfer (insurance), risk financing, risk absorption etc. for the purpose of below;

a) Effective and efficient operations
b) Effective Internal Controls
c) Compliance with laws and regulations

Risk Registers shall also be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Risk Managers and Risk Officers will be identified for proper maintenance of the Risk Registers which will facilitate reporting of the effectiveness of the risk treatment to the Risk and Audit Committee, and to the Board.

5. CLASSIFICATION OF RISKS :

We have divided the risks into three broad categories, namely:-

- Business risk
- Operational risk
- Financial risk

6. IMPACTS OF RISKS AND MITIGATION MEASURES :

S.No	NATURE OF RISK	IMPACT ON THE COMPANY	MITIGATION PLAN
	Business risk		
1	Business dynamics	Export of knitted garments for infants and children constitutes a significant portion of business for which no long-term sales contracts are available.	By maintaining quality on our products, the Company can increase its customer base to sustain and improve its performance.

2	Changes in domestic and international regulatory environment.	May have adverse effect on business operations and financial implications.	The Company has ability to manage and comply with any such adverse effect on business and financial condition.
3	No intellectual property right protection in respect of the designs of the product and the crocodile brand.	Possible conflicts of interest may arise with parties who may duplicate the Company's brands.	The Company is enhancing and developing the existing brands including the crocodile brand by focusing further resources on sales network and brand management.
4	Competition in the domestic retail circular	The retail division of the Company is exposed to significant competition in the retail sector in relation to the crocodile menswear brand.	The Company is adapting changes towards market runs and customer requirements in the menswear market in a timely manner.
	Operational Risk		
1	Adherence to stringent labour laws and industry standards	Minimum wages payable to labour, contract workers may materially affect the Company by way of more periodical outflow.	With improvement on labour productivity, cost cutting measures and strategic manufacturing labour days, the Company could derive benefits.
2	Logistics	Incease in the cost of transportation from time to time in view of increasing fuel cost, insurance etc.	The Company has a dedicted transport group to handle all requirements relating to the movement of Raw Materials and finished goods.
3	System capability and Integrity	The technological obescelence may have an impact on the Company.	The Company has regular upgrades and maintanence on a continuous basis with trained system professionals.
	Financial Risk		
1	Liquidity	In meeting the financial obligations and credit facilities avail the may experience liquidity adversely.	The Company has annual financial plan covering quarterly budgets besides daily and monthly cashflow analysis system in force. Further it has well organised cash management services
2	Foreign Exchange	The Company has foreign currency exposures on export sales	By hedging the Company handles the risk to have greater stability.
3	Corporating Accounting Fraud	Possibility of misuse of funds, overstating or understating of expenses and revenues.	The Company has adequate internal control practices and multiple authorisation for key transactions.

7. ROLE OF THE RISK MANAGEMENT COMMITTEE

The following shall serve as the Role and Responsibility of the Risk Management Committee authorized to evaluate the effectiveness of the Risk Management Framework:

- Review of the strategy for implementing risk management policy
- To examine the organization structure relating to Risk management
- Evaluate the efficacy of Risk Management Systems – Recording and Reporting
- To review all risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines
- To define internal control measures to facilitate a smooth functioning of the risk management systems
- Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management

8. AMENDMENTS / REVIEW:

This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto. This policy shall be reviewed by the Risk Management Committee from time to time as may be necessary. This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.

9. DISCLAIMER CLAUSE:

The Management cautions that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company