GUJARAT PIPAVAV PORT LIMITED

RISK MANAGEMENT PLAN

INTRODUCTION:

Oxford Dictionary defines the term **"risk"** *as a chance or possibility of danger, loss, injury or other adverse consequences.*

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Paragraph (C) of sub-clause IV of Clause 49 of the Listing Agreement states as under:

"The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework."

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009, as reproduced hereunder:

"(II) (C) Risk Management:

i). The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the Company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the Company."

It is therefore mandatory to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimize their adverse impact on the organization.

RISK STRATEGY:

Gujarat Pipavav Port Limited (hereinafter referred to as "GPPL" of "the Company") recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

GPPL is engaged in the business of Port Development and Operations.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, Competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, customer/supplier reliability risk, legal risk.

For managing Risk more efficiently, the Company needs to identify the risks that it faces in trying to achieve its objectives. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks should be assessed and steps as appropriate should be taken to mitigate the same.

RISK MANAGEMENT FRAMEWORK:

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into:

Strategic:
- Organizational Growth.
- Sustenance and Growth of Strong relationships with associates/customers.
- Expanding our presence in existing markets and penetrating new geographic markets.
- Continuing to enhance our industry expertise.
- Enhance our capabilities through technology alliances and acquisitions.

Operations:
- Consistent Revenue growth.
- Consistent profitability.
- High quality services.
- Attract and retain quality technical associates and augmenting their training.

Reporting:
- Maintain high standards of Corporate Governance and public disclosure.

Compliance:
- Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/ standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary.

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

The Company has constituted a Risk Management Committee of the Board. The Executive Team members are invitees and the Company Secretary is the Secretary of the Committee. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organization

We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; and Joint Venture level are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz.

(1) Risk Assessment
(2) Risk Management
(3) Risk Monitoring.

Risk Assessment:

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks. To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management and Risk Monitoring

In the management of Risk, the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. **Economic Environment and Market conditions:**

   Economic slowdowns or factors that affect the domestic as well as international business and reduction in import and export of materials may increase risk to our revenue growth.

   Strategically, we seek to continuously expand the customer base to maximize the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of satisfaction indices of our services. The efforts to enhance quality of service and upgrading their performance parameters are aimed at deriving optimum value from the existing customer base and targeting a larger customer profile.

   To counter pricing pressures caused by strong competition, the Company has been increasing operational efficiency and has continued to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.

2. **Competition:**

   The markets for porting activities are rapidly evolving and highly competitive and we expect that competition will continue to intensify due to entry of new players, innovation of providing additional value added services of existing players and consolidation of operations across the Industry.

3. **Revenue Concentration:**

   High concentration in any single customer exposes the Company to inherent risks. We have adopted prudent norms based on which we monitor and prevent undesirable concentration in an industry, or customer. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with the Company's policy of increasing business volumes with minimum exposure to undue risks. Concentration of revenue from any particular activity or industry is sought to be minimised over the long term by careful extension into other activities.

4. Inflation and Cost Structure:

The cost of revenues consists primarily of man power cost and other cost. The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for retaining of quality man power and ensuring best technology available at all times to reduce dependency on the manual handling jobs.

At organizational level, cost optimisation and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial model. The focus on these initiatives has inculcated across the organization the importance of cost reduction and control.

5. Technological Obsolescence:

The Company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology. Established contacts with leaders in technology, particularly in the areas of the company's operations, have dividends in our ability to access to newer and evolving processes and products. This has led to the company establishing a lead with customers and sharing with them the benefits of such technological advances quicker than the market.

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The Company's policies also include a favourable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements

6. Financial Reporting Risks:

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with Indian GAAP and in accordance with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances including consultation with experts in the field, scrutiny of published data for the particular sector or sphere, comparative study of other available corporate data, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks. We believe that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.

7. Risk of Corporate accounting fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of Misusing or misdirecting of funds, overstating revenues, understating expenses etc.

The Company mitigates this risk by:

- Understanding the applicable laws and regulations
- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives
- Instituting Whistleblower mechanisms
- Deploying a strategy and process for implementing the new controls
- Adhering to internal control practices that prevent collusion and concentration of authority
- Employing mechanisms for multiple authorization of key transactions with cross checks
- Scrutinizing of management information data to pinpoint dissimilarity of comparative figures and ratios
- Creating favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and manuals and a host of other steps throughout the organization and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

8. Legal Risk:

Legal risk is the risk in which the Company is exposed to legal action. As the Company is governed by various laws and the Company has to do its business within four walls of law, where the Company is exposed to legal risk exposure. We have an experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments.

Management places and encourages its employees to place full reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.

The Company has established a compliance management system in the organization and Secretary of the Company being the focal point will get the quarterly compliance reports from functional heads and being placed before the Board supported by a quarterly Secretarial Audit report by a practicing Company Secretary in compliance with clause 49 of the listing agreement.

9. Compliance with Local Laws

The Company is subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of goods and technologies and multiple and possibly overlapping tax structures. The Company put in place robust process with the help of consultants in Bangladesh where the Company has set up its subsidiary.

RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED:

1) **Business Risks:** The nature of Company's business is dependent upon the global trade and hard to predict. So its important to have strong planning, monitoring and reporting systems in the day to day management process:

   <u>Risk mitigation measures:</u>

   - The Company functions under a well defined organization structure.
   - Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
   - Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
   - Proper policies are followed in relation to maintenance of inventories, consumables, key spares and tools to ensure their availability for planned maintenance programmes.
   - Effective steps are being taken to reduce costs on a continuing basis taking various changing scenarios in the market.

2) **Human Resource Risks:**

   a) Manpower Turnover Risks involving replacement risk, training risk, skills risk etc.
   b) Unrest Risks due to Strikes and Lockouts.

   <u>Risk Mitigation Measures</u>:

   - Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
   - Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
   - Employees are trained at regular intervals to upgrade their skills.
   - Labour problems are obviated by negotiations and conciliation.
   - Activities relating to the Welfare of employees are undertaken.
   - Employees are encouraged to make suggestions and discuss any problems with their Superiors.

3) **Disaster Risks:**
   - Natural risks like Fire, Floods, Earthquakes, etc.

   <u>Risk Mitigation Measures:</u>
   - The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
   - Fire Station is located within the port with trained manpower and extinguishers have been placed at fire sensitive locations.
   - First aid training is given to watch and ward staff and safety personnel.
   - Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen.

4) **System Risks:**
   - System capability
   - System reliability
   - Data integrity risks
   - Coordinating and interfacing risks

Risk Mitigation Measures:

- EDP department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- Password protection is provided at different levels to ensure data integrity.
- Licensed software is being used in the systems.
- The Company ensures "Data Security", by having access control / restrictions.

5) Legal Risks:

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

Risk Mitigation Measures:

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.
- The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- Contracts are finalized as per the advice from legal professionals and Advocates.
- Insurance policies are audited to avoid any later disputes.
- Timely payment of insurance and full coverage of properties of the Company under insurance.
- Internal control systems for proper control on the operations of the Company and to detect any frauds.

Disclaimer Clause

The Management cautions readers 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.