



# **KIRLOSKAR BROTHERS LIMITED**

A Kirloskar Group Company

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## **ENTERPRISE RISK MANAGEMENT POLICY**

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## 1.0 Objectives

Risk is the inherent aspect of the dynamic business environment. Risk management policy helps organizations to put in place effective framework for taking informed decisions about risks. To minimize the adverse consequence of risks on business objectives, the company has framed this Risk Management Policy. The guidance provides a route map for risk management, bringing together policy and guidance from Board of Directors.

The specific objectives of the Risk Management Policy are:

- To ensure relevant material risks across the organization are identified and evaluated
- To ensure mitigation plans for risk are agreed upon, assigned to risk owners and reviewed on a periodic basis
- To ensure that risk governance structure is aligned with organizational structure and risk profile of the company with well-defined and delineated roles, responsibility, and delegation of authority
- To establish and maintain the risk appetite of the organization within the defined threshold levels.

## 2.0 Requirement as per Companies Act, 2013 (The Act)

**Responsibility of Board:** As per section (134) (n) of the Act, The board of Directors' report must include a statement indicating development and implementation of risk management policy of the company including identification of elements of risk, if any, which in the opinion of the board may threaten the existence of the Company.

**Responsibility of the Audit Committee:** As per section 177 (4) (Vii) of the Act, the audit committee shall act in accordance with the terms of reference specified in writing by board which shall, inter alia, include evaluation of internal financial control and risk management system.

**Responsibility of Independent Directors:** As per schedule IV [part II- (4)] of the Act, Independent Directors should satisfy themselves that financial controls and system of risk management are robust and defensible.





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### **3.0 Requirement of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

- i) Regulation 4(f)(ii): Responsibilities of Board of Directors list down key functions of Board of Directors:
  - ❖ Reviewing and guiding corporate strategy, major plans of action, risk policy of the company.
  - ❖ Ensuring the integrity of the listing entity's accounting and financial reporting systems including the independent audit, and that appropriate systems of control are in place, in, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
- ii) Regulation 17(9)(a) & (b) prescribes: -
  - ❖ The listed company entity shall lay down procedures to inform members of board of directors about risk assessments and minimization of procedures.
  - ❖ The Board of Directors shall be responsible for framing, implementing and monitoring the risk management plan of the listed entity.
- iii) Regulation 21: Risk Management Committee – Constitution and composition:
  - ❖ The Board of Directors shall constitute a Risk Management Committee.
  - ❖ Risk Management Committee shall have minimum 3 members.
  - ❖ Majority of members to be the members of board of directors.
  - ❖ At least one independent director to be included in Risk Management Committee.
  - ❖ Meet at least twice in a year and there should not be more than 210 days gap between two consecutive meetings.
  - ❖ The board of directors to define the role and responsibility of the Risk Management Committee.
  - ❖ Quorum of the meeting to be 2 or 1/3rds of total members of RMC, whichever is higher, including at least 1 member of Board.
- iv) Schedule II Part C- Role of Audit Committee and review of information by Audit Committee
  - ❖ Audit Committee shall evaluate internal financial controls and risk management system of the company.





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#### 4.0 Definitions

**Company:** Kirloskar Brothers Limited

**Audit Committee:** Committee of Board of Directors of the Company constituted as per the requirements under Section 177 of the Companies Act, 2013 read with SEBI Listing Regulations, 2015.

**Board of Directors / Board:** As per section (10) of "The Companies Act, 2013", in relation to a company, means the collective body of Directors of the company.

**RMP/ Policy:** Risk Management Policy

**Risk:** Risk is an event which can prevent, hinder and fail to further or otherwise obstruct the enterprise in achieving its objectives. A business risk is a threat that an event or action will adversely affect an enterprise's ability to maximize stakeholder value and to achieve its business objectives. Risk can cause financial disadvantage, for example, 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. Risk is the product of probability of occurrence of an event and the financial impact of such occurrence to an enterprise.

- ❖ **Strategic Risks** are associated with the primary long-term purpose, objectives and directions of the business.
- ❖ **Operational Risks** are associated with the ongoing, day to day operations of the enterprise.
- ❖ **Financial Risks** are related specifically to the processes, techniques and instruments utilized to manage the finances of the enterprise, as well as those processes involved in sustaining effective financial relationships with customers and third parties
- ❖ **Knowledge Risks** are associated with the management and protection of knowledge and information within the enterprise.

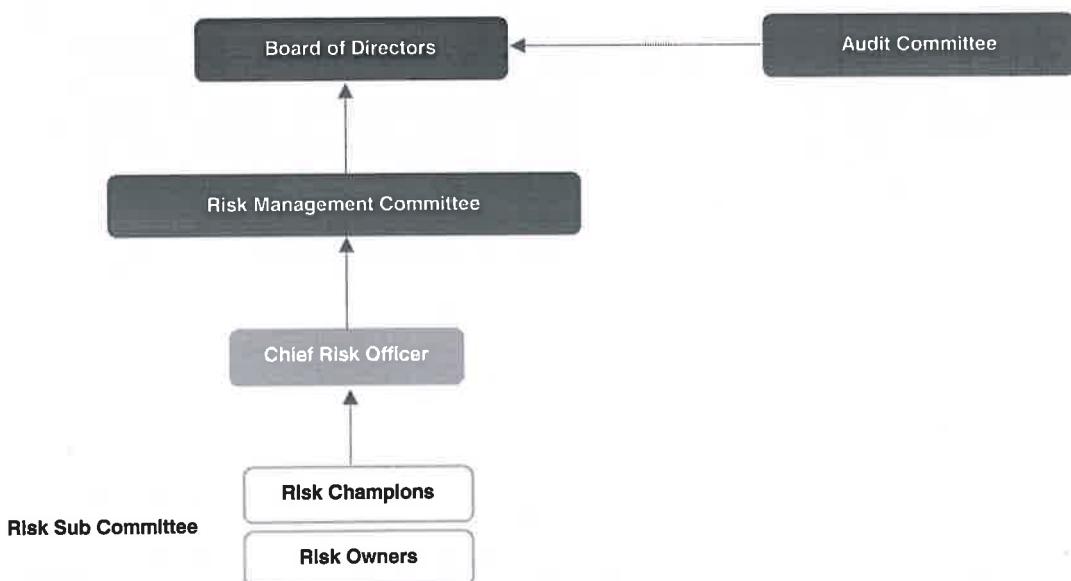




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## 5.0 Risk Organization Structure

For successful implementation of risk management framework, it is essential to nominate senior management member to lead the risk management teams. Below is the risk organization structure of the Company:





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## 6.0 Roles & Responsibility

Description	Constitution	Roles and Responsibility	Accountable to
Risk Management Committee (RMC)	<ul style="list-style-type: none"> <li>Constituted with approval of the Board</li> <li>Independent Director as Chairman of RMC</li> </ul>	<ul style="list-style-type: none"> <li>To frame, implement and monitor the Risk Management plan for the company</li> <li>To ensure that the Risk Management policy is being followed and effectively contributing to early identification of risks and proper mitigation process</li> <li>To review and approve list of risk identified, risk treatment and controlled mechanism</li> <li>To lay down procedure to inform the Board members about the risk assessment and minimization process</li> </ul>	Board of Directors
Chief Risk Officer (CRO)	<ul style="list-style-type: none"> <li>CRO shall be appointed by RMC</li> <li>CRO shall be supported by Risk sub committee</li> </ul>	<ul style="list-style-type: none"> <li>To monitor the mitigation plan for the risks identified in the consolidated risk register and place it for review of Risk Management Committee in the meeting</li> <li>Coordinate with risk champions for periodic update of risk registers</li> </ul>	RMC
Risk Sub Committee (RSC)	<ul style="list-style-type: none"> <li>RSC shall comprise of Risk Champion and Risk owners</li> </ul>	<ul style="list-style-type: none"> <li>To evaluate the risk and mitigation plan recommended by Risk owners</li> <li>Risk subcommittee shall hold its meeting</li> <li>To give directions to Risk owners for mitigating the risks identified</li> <li>To prepare draft risk analysis and control mechanism</li> </ul>	CRO/RMC
Risk Champion (RC)	<ul style="list-style-type: none"> <li>Respective Unit Heads/ Sector Heads/ Functional Heads will be Risk Champion</li> </ul>	<ul style="list-style-type: none"> <li>Risk subcommittee will update risk register and communicate to CRO</li> <li>Ensure that risks for their respective functions / departments are identified.</li> </ul>	CRO/RMC





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Description	Constitution	Roles and Responsibility	Accountable to
Risk Owners	Risk owners shall be nominated by Risk champions	<ul style="list-style-type: none"><li>• The Risk Owner will be responsible for identification and mitigation of risk of their respective areas.</li><li>• Risk Owners shall present the new risk identified along with proposed mitigation plan to Risk Subcommittee and Risk Champion for approval.</li><li>• To maintain and update register of their concerned areas and communicate to RC.</li></ul>	RC/RSC

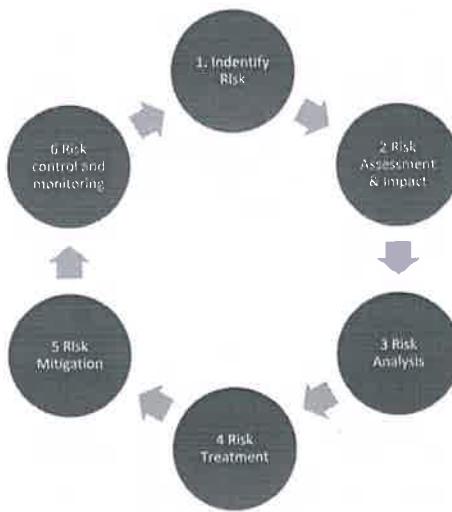


## 7.0 Risk Management Framework & Risk Management Process

Risk Management process of the Company consists of systematic steps of identifying, assessing, analysing, treatment, mitigation and control & monitoring risks. The Risk Management process is intended to improve management of risks by:

- Introducing specific methodology and practices, in a particular regular and systematic risk analysis,
- The use of a common language and criteria, and
- The systematic implementation of action plans where risks are considered to be high

The risk management process can be represented in a systematic 6-step process:



Risk management is a continuous process that is accomplished throughout the life cycle of a company. It is a methodology for continuously identifying and measuring the unknowns; developing mitigation options; selecting, planning, and implementing appropriate risk mitigations, and tracking the implementations to ensure successful risk reduction.

Effective risk management depends on risk management planning; early identification and analysis of risk; early implementation of corrective actions; continuous monitoring & reassessment; communication; documentation and coordination.





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## 7.1 Risk Identification

This involves continuous identification of events that may have negative impact on the company's ability to achieve goals. Processes have been identified by the company and their key activities have been selected for the purpose of risk assessment. Identification of risks, risk events and their relationship are defined based on discussion with the risk owners and secondary analysis of related data, previous internal audit reports, information from competition, market data, government policies, past occurrences of such events etc.

To identify organizations exposure to uncertainty, risks may be primarily classified as follows: -

### **Based on type: -**

Internal Risks: - Internal risks arise from the events taking place within the business enterprise, such risks arise during ordinary course of a business.

External Risks: - External risks arise due to the events triggered in the environment outside the business Organization.

### **Based on Control: -**

Controllable Risks: - Controllable risks are those risks where the management is able to implement measures either to prevent those risks or minimize their impact.

Uncontrollable Risks: - Uncontrollable risks are those risks which the management may not be able to anticipate effectively and will need to resort to detective measures or procedures post the risks has occurred to minimize their impact.





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Further, risk can also be segregated into following major types –

Types of Risks	Examples
Strategic / Sectoral Risks	<ul style="list-style-type: none"><li>• Reduction in Business Vitality (due to change in business strategy, customer spending patterns, product development, changing technology, etc.)</li><li>• Loss of intellectual property and trade secrets</li><li>• High attrition rate due to increased competition</li><li>• Negative impact to reputation</li></ul>
Operational	<ul style="list-style-type: none"><li>• Disruption in product supply</li><li>• Counterfeiting</li><li>• Inefficient use of resources/ increased product cost</li><li>• Disruption due to physical property damage</li><li>• Natural Calamities</li><li>• Epidemic Situation</li><li>• Labour Strike</li></ul>
Compliance including Sustainability (ESG)	<p>Violation of laws or regulations governing areas such as</p> <ul style="list-style-type: none"><li>• Environmental</li><li>• Product Quality issues</li><li>• Employee health and safety</li><li>• Selling and promotion of products</li><li>• Local tax and statutory laws</li></ul>
Financial & Reporting	<ul style="list-style-type: none"><li>• Currency Exchange</li><li>• Funding and cash flow</li><li>• Credit Risk</li><li>• Financial misstatement</li></ul>
Information & Cyber Security	<ul style="list-style-type: none"><li>• Possible information/ data leakage, misuse or loss, cyber threats / frauds</li></ul>





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## 7.2 Risk Assessment

Risk assessment is the process of risk prioritization or profiling. Likelihood and impact of risk events must be assessed for the purpose of analyzing criticality. The potential impact may include:

- ❖ Financial Loss
- ❖ Non-compliance to regulations and applicable laws leading to imprisonment, fine, penalties etc.
- ❖ Loss of talent
- ❖ Health, Safety and Environment related incidences
- ❖ Business interruptions/ Closures
- ❖ Loss of values, ethics and reputation

The likelihood of occurrence is based on number of past incidences in the industry, previous year audit observations, Government policies, information from competition, market data, future trends or research available. For detailed likelihood ratings, refer the table below:

Parameter	Score based on likelihood	Probability	Likelihood
Remote	1	<5%	Risk may occur once in over 36 months
Unlikely	2	5-20%	Risk may occur once in 24 - 36 months
Possible	3	20-50%	Risk may occur once in 12 - 24 months
Likely	4	50-90%	Risk may occur once in 6 - 12 months
Almost certain	5	>90%	Risk may occur once in span of 6 months





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**Risk Rating parameters: - Significance / Impact**

Parameter	Insignificant	Minor	Medium	Major	Critical
	1	2	3	4	5
<b>Impact on annual budgeted revenue</b>	Less than or equal to 2 %	More than 2% but less than or equal to 4%	More than 4% but less than or equal to 7%	More than 7% but less than or equal to 10%	More than 10%
<b>Impact on Budgeted OPBT</b>	Less than or equal to 2 %	More than 2% but less than or equal to 4%	More than 4% but less than or equal to 7%	More than 7% but less than or equal to 10%	More than 10%
<b>Impact on budgeted cash generation</b>	Less than or equal to 2 %	More than 2% but less than or equal to 4%	More than 4% but less than or equal to 7%	More than 7% but less than or equal to 10%	More than 10%
<b>People Risk</b>	Limited attrition of non- key employees	Moderate attrition to non-key - employees	Limited attrition of Key employee(s)/ middle management	Loss of key employee(s)/ middle management	Loss of critical employee(s)/ senior management
	No effect on ability to attract new talent	No effect on ability to attract new talent	Affects ability to attract new talent for a specific project in the short term	Affects ability to attract new talent within a geography / Business in long term	Affects ability to company to attract talent across all businesses
<b>Legal and Regulatory</b>	Warning, Show cause notice	Legal notice	Minor/ major Penalty	Major Penalty including prosecution requirement to incur significant signature	Major penalty, Legal notices having probability of permanent closure of business





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<b>Parameter</b>	<b>Insignificant</b>	<b>Minor</b>	<b>Medium</b>	<b>Major</b>	<b>Critical</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Reputational</b>	Adverse publicity, confined to a small geographical area	Adverse Publicity in local media	Adverse publicity in media, short term loss of customer confidence	Adverse publicity in media and loss of customer(s)	Adverse media publicity and loss of investor/ Key customer
<b>Management Intervention</b>	Junior Management	Middle Management	Heads of Departments / Sector head	Director/ India Business head	Intervention of CMD/ Board of Directors





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### 7.3 Risk Impact Assessment Matrix / Risk Analysis

Consequences / Impact		Likelihood				
		1	2	3	4	5
		Remote	Unlikely	Possible	Likely	Almost certain
Critical	5	5	10	15	20	25
Major	4	4	8	12	16	20
Medium	3	3	6	9	12	15
Minor	2	2	4	6	8	10
Insignificant	1	1	2	3	4	5

Risk Score = Impact X likelihood	
More than 15	High
9 to 15	Medium
9 or less	Low

### 7.4 Risk Response / Risk Treatment

Risk response involves identifying the range of options for the treating risk, assessing those options, preparing risk treatment plans and implementing them. Options include avoiding the risk, reducing the likelihood of occurrence, reducing the consequences, transferring the risk and retaining the risk.

### 7.5 Risk Mitigation

Gaps will then be identified between what mitigation steps are in place and what is desired. The action plans adopted will be documented and its implementation tracked as part of reporting process.

Ownership and responsibility for each of those risk mitigation steps will be then assigned. This will be captured in a "Risk Assessment and Control Matrix" which comprises of top key risks.





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## 7.6 Reporting / Risk Control & monitoring

Risks will be continuously monitored and reviewed by the risk champions; and the effectiveness of the controls in place and the action plan to address risk will be assessed to ensure changing circumstances do not alter risk priorities.

The Chief Risk Officer shall take lead in the risk management process and provide updates to Risk Management committee and Board of Directors as may be necessary.

## 8.0 Business Continuity Plan

Business Continuity Plan is a process involved in creating a system of either preventing or recovering effectively from the potential threats to company. The plan ensures that all assets of the company including people are protected and can function quickly in the event of a disaster. Effective implementation of ERM policy can ensure continuity of business in all adverse scenarios.

## 9.0 Review

The policy shall be reviewed every two years by Risk Management Committee.

This Policy has been lastly amended as per the recommendations of the Risk Management Committee meeting held on December 6, 2024 and approved by the Board of Directors at its meeting held on February 12, 2025.

In the event of any conflict between the provisions of this Policy and any applicable statutory provisions, the statutory provisions shall prevail.

For Kirloskar Brothers Limited

Sanjay C. Kirloskar

Chairman & Managing Director



February 12, 2025

Pune



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## 10.0 Annexures

## **Annexure 1: Enterprise Risk Register**

This section will have the current risk register of the Company along with the mitigating measures.

Illustrative templates are as follows:

#### Risk Register as per suggested policy:

Risks have been classified into business as usual, out of the ordinary risks and risks arising from black swan events. The risk registers will be maintained for all the above three types of risks.

## Annexure 2 - Concepts

## What is Risk?

Risk(s) is/are any uncertain future event(s) that might prevent the Company from achieving its business objectives. Employees commonly use the word 'Risk' but are often unclear on what they exactly mean by that. Therefore, the starting point for achieving a common approach to managing risk is to have a common understanding of the term 'Risk'.

**Nature of Risk:** Risk can be thought of in three distinct senses:

Nature of Risk: Risk can be thought of in three ways:	
<b>Hazard</b>	The threat of <b>BAD</b> things happening
<b>Uncertainty</b>	The possibility that actual results <b>WILL NOT MEASURE UP</b> to their anticipated expectations.
<b>Opportunity</b>	The chance of <b>GOOD</b> things not happening. Or the <b>EXPLOITATION</b> of identified <b>OPPORTUNITIES</b> in the marketplace that will deliver an effective competitive advantage and increase <i>shareholder</i> value.

### Annexure 3 - Escalation Matrix

Low		Moderate		High	
Immediate	Periodic	Immediate	Periodic	Immediate	Periodic
Risk Owners	Level 1: Risk Champions Level 2: CRO	Risk Owners and Risk Champions	Level 1: CRO Level 2: RMC	Level 1: Risk Owners and Risk Champions Level 2: CRO	Level 1: RMC Level 2: CMD Level 3: BOD

