JAY BHARAT MARUTI LIMITED

RISK MANAGEMENT POLICY

Overview

Jay Bharat Maruti Ltd (JBML) is one of the fastest growing Indian auto component manufacturing companies. Founded in 1986 in collaboration with Maruti Suzuki India Limited (MSIL), the Partnership represents the largest joint venture of MSIL for manufacture of sheet metal components, welded assemblies, exhaust systems, fuel fillers, Chasis and suspension parts.

Operations & Facilities

The Manufacturing plants, incorporating advance technology, are located at Gurgaon and Manesar. JBML manufactures world class auto component thus provides a competitive advantage to its customers

Facilities:

- Press Shop - 20T to 2500T Presses – Robotic, Automated and Transfer Press
- Weld Shop - MIG / MAG Welding - Manual Robotic, Spot Welding - SSW, PSW, IT Gun, MSW, Robotic Projection Welding - MSW, PSW, SSW, and Laser Cutting Rules
- World Class Paint and Plating shops
- Tools for Metal Forming Products

Products Portfolio:

- Sheet Metal Components (Including skin panels)
- Welded Assemblies
- Chassis and Suspension Parts and Assemblies
- Exhaust systems
- Fuel Fillers (Fuel pipe)

What is Risk?

Any uncertain event that could significantly impede a company's ability to achieve its current or future objectives, including failures to capitalize on opportunities

Objective of JBML Risk Management Policy (JBM-RMP)

The object of this policy is to provide a framework to:

a) Identify and assess potential risks
b) Categorize risks according to severity/risk prioritization
c) Mitigate and manage risks
d) Implement the policy
e) Assure profitable growth and stability to the organization

Applicability of JBM-RMP

This policy would be applicable to its all plants, and will operate in conjunction with other business and administrative policies.

Focus of JBM-RMP

The risks associated with each product group and geography would differ based on location and nature of operations. The Policy envisages identification of risks by each product segment and location, together with the impact that these may have on the business objectives. It also provides a mechanism for categorization of risks into Low, Medium and High according to the severity of risks**.**

The framework will address only risks which will have potential impact on the company's growth, profitability, cash flow and non-financial risks viz. Company reputation, safety, environmental and compliance related.

Whilst all risks will be identified, in the first instance, it is proposed to address effectively, the evaluation and containment of only High level risks in the first phase

Risk Organization Structure

After the JBM-RMP is approved by the Board and its committee constituted, it is proposed that the JBM-RMP accountability be implemented in the following manner:

1) Finance department in consultation with Head of the department would appoint a "Risk Owner", who would be responsible for management and containment of risks for respective area of operation and who would interface with Finance department.

2) The Finance department would co-ordinate for the overall implementation of this Policy.

3) The company will have Steering Executive Committee who will respond and finalize action plan, review implementation status on earlier action plans on a periodic basis.

4) A Risk Management Board Committee at Board level would be constituted to give due importance to Risk evaluation and containment. This Committee would meet quarterly.

5) The Board of Directors would evaluate the overall risk management processes as well as measures for containment on a half-yearly basis.

Risk Strategy

Based on the Risk Appetite level determined and reviewed from time to time, the company would formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies**:**

Tolerate:

The exposure may be tolerable without any further action being taken. Even if it is not tolerable, ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained.

Transfer

For some risks the best response may be to transfer them. This might be done by conventional insurance or by paying a third party to take the risk. This option is particularly good for mitigating financial risks or risks to assets. The transfer of risks may be considered to either reduce the exposure of the organization or because some other organization is more capable of effectively managing the risk.

Treat

By far, a large number of risks will be addressed in this way. The purpose of treatment is that whilst continuing with the activity giving rise to the risk, action (internal control) is taken to constrain the risk to an acceptable level.

Terminate

Some risks can only be treatable, or containable to acceptable levels, by terminating the activity itself. This option can be particularly important in project management if it becomes clear that the projected cost-benefit relationship is in jeopardy as the cost of treating the risk does not make the activity viable. For example, land acquisition for a project whose feasibility is based on that particular land may be risky and the cost of treating it in terms of legal fees is so high, that it may be better to terminate the project.

Procedure & Methodology

The proposed procedure will have the following four steps:

a) Risk Identification
b) Analysis, Categorization & Prioritization of identified risks using risk assessments
c) Develop Mitigation plans & Implement Solutions
d) Reporting.

(a) Risk Identification

This would involve identification, by each location and department head, of a comprehensive list of events that could have an adverse impact on the business objectives. Each location will identify and quantify risks based on business plan for the year/updated during the year past experiences, brainstorming, incident database, interviews & questionnaires and a conservative evaluation of future expectations. An illustrative questionnaire and Risk Identification Template is enclosed as Annexure I and Annexure II respectively

An indicative categorization / areas of risks for JBML are as under:

❖ **Operational Risks**

- Procurement of Raw Material (Availability, Quality, Pricing, Excess Material etc.)
- Foreign Exchange exposure
- Quality Issues w.r.t. Finished Goods
- Major Breakdown at the Plant
- Health, Safety & Environmental hazards
- Manpower Retention
- Industrial Relations
- Market Competition

❖ **Strategic Risks**

- Leadership Band-width & Succession planning
- Unprofitable Business Decisions (mergers/acquisitions/joint ventures)

❖ **Regulatory & Legal Compliances**

- Relevant regulations & promulgations in the respective geographies

It is proposed that, for all the above categories, every location will, as far as possible, identify risks in the financial dimension, together with the impact on the Company's reputation, wherever possible.

Comprehensive identification, using a well-structured brainstorming process at the location level, led by the Risk Owner is critical, because a risk not identified at this stage, may be excluded from further analysis. Identification should include risks whether or not; they are under the control of the location head.

(b) Risk Analysis & Prioritization

It is proposed that risks be categorized and prioritized into Low, Medium and High, based on the dual criteria of Financial Impact and Likelihood of Occurrence of the event which gives rise to the risk. Thereafter, the level of risk severity will be ascertained as a multiple of the financial impact x the likelihood of occurrence. An illustrative Risk analysis/assessment is enclosed at Annexure III – A, III – B & III – C

Financial Impact

Based on the Financial implication risk will be prioritized on a scale of 1 to 3 where 1 stands for Low, 2 for Medium & 3 for High. In case it is not possible to quantify the risk in monetary terms, the following suggestive parameters should be used to categorize the risk on the above scale of 1 to 3 and thereafter assess the consequence of the risk.

1. Impact of fatality or irreversible disability/ impairment to human life
2. Impact on the environment
3. Impact on the Company's reputation due to negative publicity in the media, local & national communities, as well as litigation including public interest litigation
4. Severe compliance issues.
5. Knowledge drain due to attrition of key employees.
6. Damage to IT systems

7. Security / Discipline issues.

Probability / Likelihood of Occurrence

In addition to the identification of the risk and prioritization, the likelihood of occurrence must also be calculated. Assessment of the likelihood of occurrence is proposed along with the following scales, which should be evaluated based on a timeframe of one year:

Nomenclature	Description	Weightage
Remote/ Unlikely	Event may occur only in exceptional circumstances	1
Possible/ Likely	Event that is likely to occur in future	2
Almost Certain/Highly Possible	Event is expected to occur in most circumstances	4

Risk Severity Level

The severity level of risk will be ascertained as a multiple of the scale of Financial Impact X Likelihood of Occurrence.

For example, if there is an increase in logistics cost from the present level, say by Rs. 2 crore, which will impact the location's profitability by Rs. 2 crore per annum, and this is likely to occur in future, though infrequently, then the risk severity level will be 3 x 2 = 6 and will be classified as "High"

Risk Leave	Description	Multiple
Low & Medium	Risks of this level are managed through normal monitoring and control. No minimization actions are proposed at company level, though the Risk Owners at the location level may choose to take actions to minimize the risk.	Up to 4
High	The level of risk is high enough to warrant close control of all potential contributing factors by the Finance department in consultation with concerned Unit Head. Risks having high severity levels will be reviewed by the Steering Executive Committee, with direct accountability of Unit Head	Above 4

(c) Develop Mitigation plans and Implementing Solutions

After determining the risk severity level, the location will be required to indicate steps that they will take to either contain or eliminate the risk, with or without, cost implications. These measures will be categorized as containment measures. Each Location will assign a risk minimization percentage, based on the following scale:

- Level 1 – Risk can be reduced or controlled by 80% of risk level.
- Level 2 - Risk can be reduced or controlled by 40% of risk level
- Level 3 - Risk can be reduced or controlled by 20% of risk level

After considering the risk containment percentage mentioned above for each risk, the location will realign the risk severity level, and thereafter, these realigned risk levels will be re-classified as under:

Risk Leave	Description	Multiple
Low & Medium	Risks of this level are managed through normal monitoring and control. No minimization actions are proposed at the Company level, though the Risk Owners at the location level may choose to take actions to minimize the risk.	Up to 4
High	The level of risk is high enough to warrant close monitoring of all potential contributing factors by the Finance Department	Above 4

It is proposed that High level risks will be addressed by the Finance Department and their actions reported to the Risk Management Committee on a quarterly basis.

The Risk Owner at every location will be expected to re-evaluate the risk profile of the location on a continuous basis, after considering the recommendations of the Finance Department and the Risk Management Committee.

(d) Reporting and Review Mechanism

The Risk Owner of every location will report on the above matters to the Finance department on a quarterly basis. The Finance department will report the overall Company status and proposed actions to the Steering Executive Committee on defined periodic basis. The Risk Management Board Committee will review the risk profile of the Company with focus on high risks on a quarterly basis.

Approval and Review of the Policy

The Board will be the approving authority for the company's overall Risk Management System. The Board will, therefore, monitor the compliance and approve the Risk Management Policy and any amendments thereto from time to time. The Board will also review the JBM-RMP half yearly in June and December every year to comply with the risk management regulations and best practices.

Annexure I

Sample Questionnaire for Identifying Risks and Performing Risk Assessment

- What are your key business area objectives?
- What are the important internal and external risks faced by the key business area?
- What is the likelihood of the risk occurring?
- What is the consequence of the risk?
- What are actions / controls taken to mitigate / manage the risk identified?
- What is the frequency of these actions?
- Who is responsible for monitoring these risks?

Annexure II

Risk Identification Template

JBML - Risk Identification				
Department: Sourcing **Plant**: J1/ J2 / J3 / J4		**Preliminary Assessment**		
Sl No	Risk Areas	Low	Medium	High
1	Model Discontinuation by OEM/Technology Obsolescence			
2	Volume Volatality of Customer			
3	Competitors Growth			
4	Dependency on Single customers/ segment			

JBM Group
Our milestones are touchstones

Annexure III-A

Risk Assessment & Evaluation:

Risk Mitigation & Evaluation — Location: J1 / J2 / J3 / J4

Marketing Department — HOD: Mr.

Risk No.	Process	Risk Owner	Risk Description	Risk Impact/Description	Root Cause, if any	Risk Before Mitigation		
						Impact	Likeli hood	Risk Score
1	Mktg		Model Discontinuation by OEM/Technology Obsolescence	Model disconitnuation by OEM or Technology Obsolescence may result a decline in sales and affect profitability				
2	Mktg		Volume Volatality of Customer	Volume volatility lead to volatality in Product Margins and also lead to under recovery of Fixed Costs				
3	Mktg		Competitors Growth	Competitors growth may lead to erosion in share of Business or may hamper Growth of the company				
4	Mktg		Dependency on Single customers/ segment	Significant dependence on single OEM might result into loss of long term competitiveness & lower realization				
5	Mktg		Inability to gain and sustain the desired market share in various product and market	Inability to gain and sustain the desired market share in various product and market segment at desired margins				
6	Mktg		Price Compensation: - RM Price Increase - Input cost compensation	Increase in RM & other input cost may result in decline of profit Margins				
7	Mktg		Delay or Non payment of dues by Customer	Would increase working capital Gap resulting in increase in financial cost/Non payment would lead to financial loss				

Annexure III-B

Risk Assessment & Evaluation:

Risk Mitigation & Evaluation — Location: J1 / J2 / J3 / J4

Sourcing Department — HOD: Mr.

Risk No.	Process	Risk Owner	Risk Description	Risk Impact/Description	Root Cause, if any	Risk Before Mitigation		
						Impact	Likeli hood	Risk Score
1	Procurement		Unavailability of key raw materials on time	Non availability of ownership over key raw materials in the Organization portfolio might result in constrained availability/high cost of acquisition of the raw materials				
2	Procurement		Inventory Pile up	Inadequate planning may result in inventory pile up leading to blockage of Funds				
3	Procurement		Price Volatility	Exposure to market risk on account of volatility in prices for Raw Material				
4	Procurement		Vendor Selection:					
5	Procurement		i. Vendor Performance	Performance risk with newly selected Vendor				
6	Procurement		ii. Single Source of Procurement	Single source may result in dependency on vendor for supplies and any disruption in supplies may result in production loss				

Annexure III-C

Risk Assessment & Evaluation:

Risk Mitigation & Evaluation — Location: J1 / J2 / J3 / J4

Finance Department — HOD: Mr.

Risk No.	Process	Risk Owner	Risk Description	Risk Impact/Description	Root Cause, if any	Risk Before Mitigation		
						Impact	Likeli hood	Risk Score
1	Finance		Forex volatility risk	Unhedged exposures may lead to losses on account of volatility in foreign exchange rates				
2	Finance		Interest rate risk	Volatility in interest rates may lead to increase in Financial cost (Interest rate on foreign currency loan may go up depending on market circumstances)				
3	Finance-Secretrial		Loss of market capitalization and market value	Adverse shareholder perception about the organization may result in loss of market capitaliziation and market value.				