ELECTRONICS LIMITED

POLICY

ON

RISK MANAGEMENT
a) Introduction

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 firm and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

b) Listing Agreement

Sub-clause IV of Clause 49 of the Listing Agreement states as under

1) The Company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.
2) The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company.

It has therefore become mandatory for the listed Companies 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.

c) Risk Management Committee

In line with aforesaid Clause, the Board of Directors at the meeting held November 11, 2014, constituted Risk Management Committee with following members under the Chairmanship of Mr. D Rajesh Kumar, to frame suitable policy:

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<tr>
<th>S.No</th>
<th>Name of the Member</th>
<th>Position in the Company</th>
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<tbody>
<tr>
<td>1</td>
<td>Mr. D. Rajesh Kumar</td>
<td>Joint Managing Director and Chief Financial Officer</td>
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<tr>
<td>2</td>
<td>Mr. V Sankaran</td>
<td>Independent Non Executive Director</td>
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<tr>
<td>3</td>
<td>Mr. P. Ramakrishnan</td>
<td>Nominee Director</td>
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<tr>
<td>4</td>
<td>Mr. L Venkatapathy</td>
<td>Independent Non Executive Director</td>
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<tr>
<td>5</td>
<td>Mr. P R Thiruvengadam</td>
<td>Management Consultant</td>
</tr>
<tr>
<td>6</td>
<td>Mr. S Baskarasubramanian</td>
<td>Director (Corporate Affairs) &amp; Company Secretary</td>
</tr>
<tr>
<td>7</td>
<td>Mr. P. Sivakumar</td>
<td>General Manager (Marketing) - unit I</td>
</tr>
<tr>
<td>8</td>
<td>Mr. B. Mahendran</td>
<td>Sr. Manager (Works) – Unit I</td>
</tr>
<tr>
<td>9</td>
<td>Mr. M. Lakshminarayana</td>
<td>Gen. Manager – Operations - Unit II</td>
</tr>
<tr>
<td>10</td>
<td>Mr. S. Venkatachalam</td>
<td>Manager – Commercial - Unit II</td>
</tr>
<tr>
<td>11</td>
<td>Mr. R. Menaka</td>
<td>Manager Accounts – Unit I</td>
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</table>
d) **Objectives of the Committee**

The Committee has been entrusted with the task of identifying the potential threats that are likely to impact the growth of the organization and evolve a suitable policy to mitigate such identified Risks.

e) **Methods of Avoiding potential Risks**

The Company believes that the Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky businesses;
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

f) **Risk Mitigation Measures**

The Company always foresees various risks involved in its growth. Some of the common risks are:

- Regulations,
- competition,
- Business risk,
- Technology obsolescence,
- Investments,
- retention of talent and
- expansion of facilities.

At an operational level, the respective functional heads are responsible for identifying and assessing risks within their area of responsibility and make presentation to the Committee for taking appropriate measures for mitigation of the Risks. Further, the Board would also review the Risk Mitigation Measures taken by the Committee.

g) **Classification of objectives**

The growth of the Company strongly relies on the following objectives:

- **Strategic objectives:**
  - Organizational Growth.
• Comprehensive range of products.
• Sustenance and Growth of Strong relationships with dealers/customers.
• Expanding our presence in existing markets and penetrating into new geographic markets.
• Continuing to enhance our industry expertise.
• Enhance our capabilities through continuous technology up-gradation, technology alliances and acquisitions.

✓ **Operational objective :**

• Consistent Revenue growth.
• Consistent profitability.
• High quality production.
• Further develop Culture of Innovation.
• Attract and retain quality technical associates and augmenting their training.

✓ **Reporting objective :**

• Maintain high standards of Corporate Governance and public disclosure.

✓ **Compliance objective :**

• Ensure stricter adherence to related policies, procedures and laws/ rules/ regulations/ standards.

Each one of the above objectives is bearing significant consequences in every walks of the organization. These objectives are exposing to the various risk factors owing to the changes in the conditions across the Industries, Country and Globe from time to time.

h) **Risks emanation**

In the normal circumstances, we can perceive the Risks from the following perspectives

1. Economic Environment and Market conditions
2. Fluctuations in Foreign Exchange
3. Political Environment
4. Competition
5. Financial Reporting Risks
6. Risk of Corporate accounting fraud
7. Inflation and Cost Structure
8. Technological Obsolescence
9. Legal Risk
10. Compliance with Local Laws
11. Quality and Project Management
12. Environmental Risk Management
14. Culture and Values
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<th>Sl. No.</th>
<th>Risks perception</th>
<th>Risk mitigation measures</th>
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| 1      | Economic Environment and Market conditions | Our customers are widely spread in different segment of industries and also common customers. Any change in economic conditions of domestic and international arena will have its own impact not only on the different segment of customers but also common customers both in domestic and international markets.  

The company is strategically planned to have close interaction with all segment of customers both in domestic and international markets to maximize the potential volumes in its growth plan in addition to expanding to the new segment of customers for securing additional volumes in growth. Besides, the company is always contemplating to be cost competitive clubbed with development of new higher variants of the existing products and also to develop new products with innovative designs without compromising on quality and its utilities to ensure the sustainable growth to improve its market share both in domestic and international markets to counter the any possible economic and other market constraints on a continuous basis. |
| 2      | Fluctuations in Foreign Exchange | The company is dealing both in domestic and international markets and any impact on the exchange parity will likely to have its impact on the extent of foreign exchange exposure of the company.  

Foreign exchange exposures are recognized from the time of import / export transactions are signed, which may be in the nature of any contract of importing or exporting or other business transactions. The company is having a strategy of transacting its import/export businesses through letter of credits (LCs) and/or Purchase Orders (POs) from the customers. The Risks being involved in such transactions due to parity are being monitored closely on monthly / quarterly basis in order to minimize the impact due to exchange parity. To mitigate such risks, the company is adopting the following measures:  

Business transactions are being priced in exchange currency itself clubbed with hedging strategy, in |
consultation with the company's bankers/experts in the field, as per the requirements of the circumstances and business exigencies.

| 3 | Political Environment | Any adverse change in the political environment in our country and also in the countries where the company is having its presence in the international markets will have its own impact in the growth potentialities of the company. Considering the basic political philosophy being prevailed in our country and also in the countries where the company is having its businesses, the company is reviewing the situation very closely on a continuous basis to formulate its business strategy accordingly. The company is also reviewing and monitoring the country's industrial, labour and other related policies through the association with the industries bodies like CII, ASSOCEM, etc., |

| 4 | Competition | The company is manufacturing electrical installation products under the categorization of General Electrical Equipment Industry. Being the technology for manufacture of these products is general common technology there are competitions both from organized and unorganized sectors. The company is having suitable strategic plan to mitigate and fight out such competitions both from domestic and international markets by way of consistence in its quality, competitiveness through process improvements, technological upgradation and continuous research and development activities to be cost effective and competitive. The company is following the open policy and strategy to take leverage the prevailing conditions based on the business needs and exigencies from time to time. |

| 5 | 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. |
The company is 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.

The company’s 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. Besides, the company is also contemplating to ensure the following with suitable measures:-

- Financial solvency and liquidity risks
- Borrowing limits
- Cash management risks

**Risk Mitigation Measures:**

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- These budgets with Variance Analysis are prepared to
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| **6 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 authorisation of key transactions with cross checks  
  * Scrutinising of management information data to pinpoint dissimilarity of comparative figures and ratios  
  * Creating a 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 organisation and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer. |
| **7 Inflation and Cost Structure** | The cost of revenues consists primarily of raw materials including Copper, PVC, Silver, etc., The cost of revenues has a very high degree of inflationary trend. To mitigate it, the Company has established suitable measures for procurement of raw materials and stores and those amenable to just-in-time inventories including contacts |
### RISK MANAGEMENT POLICY

with suppliers of Copper and other material.

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. The company is also having close monitoring system in this respect on monthly basis through its various management review meeting.

| 8. Technological Obsolescence | The company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and also through its in-house R&D. The company is making periodical investments to keep the up-gradation of technology with the latest developments and also to bring in the best of the prevailing technology. Established contacts with leaders in technology, particularly in the areas of the company’s operations both domestically and internationally through its Business Associates and other information available in domain, which have dividends in our ability to access to newer and evolving processes and their applications in the manufacture of Electrical Installation products. This has led to the company establishing a lead with customers and sharing with them the benefits of such technological advances.

The company’s policies also include a favourable dispensation for replacement of Machinery and Equipment on a continuous basis to take advantage of such technological movements and up-gradation.

| 9. 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 are engaged on need based requirements to focus on |

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**8**
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 organisation and Secretary of the Company being the focal point will get the quarterly compliance reports from functional heads and being placed before the Board. Besides the company is also having Internal Audit system and Secretarial Audit system through a Practicing Chartered Accountant and Practicing Company Secretary.

10. Compliance with Local Laws

The Company is also subject to risks related to complying with various national and local laws with respect to import and export of goods and technologies and tax structures. The company is having suitable employees to ensure such compliances including international laws, if any.

11. Quality and Project Management

The company is conscious of producing the electrical installation products qualitatively comparable with international quality and safety standards. The company is also taking adequate measures to ensure the total quality management techniques in its manufacturing activities and also have the in-process quality checks not only to ensure quality standards but also to reduce the rejection levels. However, the quality of inputs such as raw materials and components which are being bought out from external sources will pose quality risk. To mitigate such quality risks the company is having quality control department to meticulously check the quality of the raw materials and other inputs so as to ensure the quality as per the stipulated specifications and standards. The employees of the company are being trained in a continuous basis to ensure continuous improvement in quality of the products and
services. The company is certified under the quality standards by NQA - UK on its manufacturing activities and its products for design, manufacture and supply of electrical installation products under ISO 9001 system and the products are being certified under the international quality standards like UL, CSA, CE & “S”. The company is also having a system to thoroughly examined the complaints received from the customers on its products and thus have the well set systems and standards to ensure the quality and project management.

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<td>The company endeavours to protect the environment in all its activities as a social responsibility and commitment to the society.</td>
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<td>For control of water pollution the Company has setup a sewage treatment plant and it is further used for gardening and plantation and the industrial wastewater generated from the plants is re-circulated into the process.</td>
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<tr>
<td>The Company is also certified under the air &amp; water pollutions by the Pollution Control Board of Tamilnadu Government.</td>
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<tr>
<td>Extensive plantation of trees around manufacturing plants is undertaken for green belt development.</td>
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<tr>
<td>Besides the company has also following not to use the hazarded substances in its manufacturing activities under RoHS system.</td>
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<th>13. Human management</th>
<th>Resource</th>
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<tr>
<td>“The vision of the Company is to achieve Organisational excellence through right people, right job at right place”</td>
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<tr>
<td>The company is having the HR policy to ensure the right person is assigned with right job so as to enable them to grow and to contribute towards organizational excellence. In this context, the company is always endeavouing to attract quality talent human resources and effectively engage them in right jobs at right place.</td>
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<tr>
<td>Risk in matters of human resources are sought to be minimized and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively</td>
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</table>
train them in spheres other than their own specialisation. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to manufacturing procedures etc. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance. Packages are inclusive of the proper incentives and take into account welfare measures for the employee and his family.

The company ensures to provide an environment that rewards entrepreneurial initiative and performance.

14. Culture and Values

In order to have the desired inter-personal relation team spirit and appropriate co-operation and co-ordination amount its human resources belonging to different culture and values.

Managing risk consistently among multi-cultural workforce is very critical.

The company has implemented a written code of conduct and ethics for the employees. These policies are disseminated on the Company's website and affirmations have been obtained from all concerned to ensure compliance.

Our core values:
• Pursuit of Excellence
• Industrial Promotion
• Export Promotion
• Workers' Welfare • Productivity
• Safety
• Industrial Relations
• Environment Improvement

These are guiding parameters for all organization-wide initiatives.
Over the years, company has consistently followed the practice of adhering to certain cultures and values in internal and external management and every employee is made aware of such practices and the logic behind them. It is the company’s belief that every employee is attuned to follow fair practices and uphold its fair name in every field they are involved.

Further, the Company's website, www.salzergroup.com provides an overview of the organization’s direction, design, culture, processes, product range, policies and practices. This site is also accessible to the public, which is updated periodically.

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<th>15</th>
<th><strong>Disaster Risks:</strong></th>
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<td></td>
<td>• Natural risks like Fire, Floods, Earthquakes, etc.</td>
</tr>
<tr>
<td></td>
<td>• 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.</td>
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<tr>
<td></td>
<td>• Fire extinguishers have been placed at fire sensitive locations.</td>
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<tr>
<td></td>
<td>• First aid training is given to the employees at all level.</td>
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<tr>
<td></td>
<td>Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen</td>
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</tbody>
</table>

**Risks specific to the Company and the mitigation measures adopted**

a) **Business Operations Risks:**

These risks relate broadly to the company’s organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:

a. Organization and management risks,
b. Production, process and productivity risks,
c. Business interruption risks,
d. Profitability

**Risk mitigation measures:**

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

b) **Liquidity Risks:**

a. Financial solvency and liquidity risks  
b. Borrowing limits  
c. Cash management risks  

**Risk Mitigation Measures:**

d. Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.  
e. Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.  
f. These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.  
g. Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.  
h. Cash management services are availed from Bank to avoid any loss of interest on collections  
i. Exposures to Foreign Exchange transactions are supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

c) **Credit Risks:**

a. Risks in settlement of dues by dealers/customers  
b. Provision for bad and doubtful debts  

**Risk Mitigation Measures:**

c. Systems are put in place for assessment of creditworthiness of dealers/customers.  
d. Provision for bad and doubtful debts made to arrive at correct financial position of the Company.  
e. Appropriate recovery management and follow up.

d) **Market Risks / Industry Risks:**
- Domestic Market

- Availability of the Raw Materials
- Consumer Sentiments
- Competitions, Warranty & Competitions
- Policies and Interest Rates
- Demand and Supply
- Warranty
- Pricing

- Export Market

- Cross Border competitions
- Policies of the Counter Countries
- Political revolutions between countries
- Exchange Rate Risk
- Sustenance
- Warranty
- Pricing

Risk Mitigation Measures:

a. Raw materials are procured from different sources at competitive prices.
b. Alternative sources are developed for uninterrupted supply of raw materials.
c. Demand and supply are external factors on which company has no control, but however the Company plans its production and sales from the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company’s products.
d. The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile, delivery mechanisms, technical inputs and advice on various aspects of de-bottlenecking procedures, enhancement of capacity utilisation in customer-plants etc.
e. Proper inventory control systems have been put in place.
f. The Company's bankers are consulted and suitable exposures in the form of limited buyers’ credit and other instruments are evolved to mitigate exchange rate fluctuations as well as in interest rates tied to LIBOR and other like rates.
g. Warranty is being extended to all customers ensuring the products’ quality and durability both in the domestic and International Market.
h. Pricing of the products are being done with prompt attention to the prevailing conditions in the Market and also to the pricing of the competitors in both the markets

e) Human Resource Risks:
Risk Mitigation Measures:

- 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.

f) Risk Control

1. Risk limitation or reduction is the prime objective in framing the policy.
2. The company will keep net open position limits in accordance to the approval of the Risk Management Committee and also consider the natural insurance cover into consideration.
3. The Company's bankers are consulted and suitable exposures in the form of limited buyers' credit and other instruments are evolved to mitigate exchange rate fluctuations as well as in interest rates tied to LIBOR and other like rates.

g) Safe Harbour

The risks outlined under this policy are not exhaustive and are for information of probable risk involved in the operations of the company. Management is not an expert in assessment of risk factors and risk mitigation measures. The above risks are only as per the management’s perception and for guidance purpose only for the benefit of the concerned people.