



Empire Industries Limited

Risk Management Policy & Procedures

Introduction

The term “**risk**” is defined as a chance or possibility of danger, loss, injury or other adverse consequences

Risk management is necessary to identify and then manage threats that could severely impact 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.

Clause 21 of the Securities and Exchange Board of India (Listing obligations and Disclosure Requirements) Regulations, 2015, the Company requires -

- A. To lay down procedures about the risk assessment and minimization procedures.
- B. To make Board responsible for framing, implementing and monitoring the risk management plan.
- C. To constitute a Risk Management Committee, the majority of which consist of members of the Board of Directors.
- D. Senior executives of the company may be members of the said Committee but the Chairman of the Committee shall be a member of the Board of Directors.

Risk Strategy:

Empire Industries Limited (EIL) recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. 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;

The Empire Industries Limited is a diversified company committed to excellence. The business carried on by the Company are:

- (1) Manufacture of Glass Containers for Pharmaceutical Industry;
- (2) Represents a number of foreign manufacturers of Precision Machine Tools, Measuring Instruments, Testing Machines and Designing and Marketing of Industrial Equipments.
- (3) Vending services of Foods and Non-Food products through Vending Machines under the brand name "GRABBIT"; and Marketing of Frozen Foods.
- (4) Offering office space in the properties developed at Lower Parel & Vikhroli, under Leave & License basis to Banks and Multinational Companies.

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Divisions

Empire Machine Tools MFTM • Empire Machine Tools MCAT • Vitrum Glass
Empire Industrial Equipment • Empire Vending (GRABBIT) • Empire Foods
The Empire Business Centre • Empire Industrial Centrum

Business risk, includes financial risk, political risk, fidelity risk, legal risk. For managing risk more efficiently the company needs to identify the risks that it faces in trying to achieve the objectives of the company. Once these risks are identified, the management needs 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 are assessed and steps as appropriate are taken to mitigate the same.

Risk Management Framework

Objectives should exist before management which can identify potential events affecting their achievement.

The Objectives of the Company are classified into

Strategic:

- Organizational Growth.
- Comprehensive range of products.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating new geographic markets.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality production.
- Further develop Culture of Innovation.

Reporting:

- Maintain high standards of Corporate Governance and public disclosure.

Compliance:

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

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.

The Company has constituted a Risk Management Committee with 2 Independent Directors and the Company Secretary as members. The Committee submits its periodical report to the Board about the measures taken for mitigation of Risk in the organization.

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 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

Our customers are mainly in Pharmaceuticals industries, MNCs, Banks, etc. Economic slowdowns or factors that affect the economic health of our customers' countries and the said industries may increase risk to our revenue growth.

Strategically, we seek to continuously expand the customer base to maximise the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of our record of satisfactory performance in our earlier dealings. The efforts are aimed to enhance quality of products and upgrading their performance parameters. Historically, the strength of our relationships has resulted in significant recurring revenue from existing customers.

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

2. Fluctuations in Foreign Exchange

While our functional currency is the Indian rupee, we transact a significant portion of our business in USD/Euro and other currencies and accordingly face foreign currency exposure from our sales/services in other countries and from our purchases from overseas suppliers in U.S. dollars and other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

We manage risk on account of foreign currency fluctuations through limited hedging of specific transactions with our Bankers. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with limited hedge cover so that moderate arbitrage efficiency is achieved against the existing borrowing rates of interest. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

3. Competition

The markets for Glass Bottles are rapidly evolving and highly competitive and we expect that competition will continue to intensify due to establishment of new capacities, expansion of existing capacities and consolidation of operations across the pharmaceutical sector.

We believe that we are strongly positioned in our designated market commanding a premium for our product. Our marketing strategies are being evolved to cover a wider marketing area. Additionally, efforts to bring down the cost of production are being implemented with a reduced workforce backed by high-end production technology.

4. Inflation and Cost Structure

The cost of revenues consists primarily of raw materials, personnel, Municipal Taxes, Sales Promotion expenses, etc. The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for procurement of long delivery and strategic raw materials and stores and those amenable to just-in-time inventories. 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.

5. Technological Obsolescence

EIL's philosophy is to 'Modernise, Indigenise, Never Compromise on Technology'

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, establishing contacts with leaders in technology. This has led to the company establishing a lead with customers and sharing with them the benefits of such technological advances.

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.

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.

Financial Statements are prepared in accordance with the Accounting Standards specified in the Companies (Accounting Standards) Rules, 2015 notified by the Central Government in terms of Section 133 of the Companies Act, 2013. 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.

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 authorisation of key transactions with cross checks
- Scrutinising of management information data to pinpoint dissimilarity of comparative figures and ratios

8. Legal Risk

Legal risk is the risk in which the Company is exposed to legal action

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.

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 supported by a Secretarial Audit report by a practicing Company Secretary in compliance with the listing agreement.

9. Quality and Project Management

For years EIL is engaged in manufacture of Glass Bottles for Pharmaceutical industries as per mutually accepted requirements of the Customers.

Our Commitment towards total Quality Management is to forge the Human Resources of our organisation into a team that promotes continual improvement in quality of products and services.

Considerable focus is given to adherence to targeted dates and commitment to quality in every project and customer feedback is studied with personal interaction with them before, during and after project completion.

EIL, a pioneer in manufacturing Glass Bottles and is committed to maximise customer satisfaction and keep a clean and safe environment.

We are certified for ISO 9001 and ISO 9002 standards in our Glass Bottles manufacturing Division.

10. Environmental Risk Management:

The Company endeavours to protect the environment in all its activities, as a social responsibility.

11. Human Resource Management

EIL's Human Resources Development (HRD) Department will add value to all its Units by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

Risk in matters of human resources are sought to be minimised 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 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.

12. Culture and Values.

The Company has various divisions located in different geographical locations and people belonging to different culture and values are employed in those divisions.

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 are:

- Pursuit of Excellence
- Industrial Promotion
- Export Promotion
- Workers' Welfare
- Productivity
- Safety
- Industrial Relations
- Environment Improvement

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.empiremumbai.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.

Risks specific to the Company and the mitigation measures adopted

- 1) **Business dynamics:** Variance in the demand and supply of the product in various areas.

Based on experience gained from the past and by following the market dynamics as they evolve, the Company is able to predict the demand during a particular period and accordingly supply is planned and adjusted.

2) **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:

- Organisation and management risks,
- Production, process and productivity risks,
- Business interruption risks,
- Profitability

Risk mitigation measures:

- 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 of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.

3) Liquidity Risks:

- 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 have better financial planning and study of factors giving rise to variances.
- 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.
- Cash management services are availed from Bank to avoid any loss of interest on collections
- Exposures to Foreign Exchange transactions are supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

4) Credit Risks:

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

Risk Mitigation Measures:

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

5) Market Risks / Industry Risks:

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time, interest rate risks
- Raw material rates
- Interruption in the supply of Raw material

Risk Mitigation Measures:

- Raw materials are procured from different sources at competitive prices.
- Alternative sources are developed for uninterrupted supply of raw materials.
- 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.
- 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.
- Proper inventory control systems have been put in place.

6) Human Resource Risks:

- a). Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.
- b). Unrest Risks due to Strikes and Lockouts.

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.
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7) Disaster Risks:

- Natural risks like Fire, Floods, Earthquakes, etc.

Risk Mitigation Measures:

- 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 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.

8) 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.

9) Legal Risks:

These risks relate to the following:

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

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- 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.

10) Foreign Exchange and Interest Rate Risk Management:

A. Exposures

1. The Company has currency exposures in the form of Sundry Debtors, Sundry Creditors, etc.

B. Risk Identification

2. Foreign currency exposures are recognized from the time an import/export order/contract is signed and as per contractual maturity prior to opening of Letters of Credit and/or Purchase Orders by customers.

3. All exposures are considered month wise for the current year and quarter wise for later exposures. Besides, the cash flows are prepared and monitored for each currency separately.
4. The company's budgeted exchange rates are not be used for quotations or exposure management or performance evaluation of treasury.

C. Risk Measurement

5. Measurement of the risk will be done through the net open position in a currency, multiplied by the predetermined "stop loss" levels.

D. 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. Only the Division's Heads, Director-Finance & Company Secretary are authorised to take a position in the forex and interest Risk Hedging. They are accountable to the Audit Committee and Board of Directors.
4. 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/MIBOR and other like rates.

E. Accounting & Reporting

The Financial Statements are prepared in accordance with the Accounting Standards specified in the Companies (Accounting Standards) Rules, 2015 notified by the Central Government in terms of Section 133 of the Companies Act, 2013. Thus the accounting policy confirms to the Indian Accounting Standards and any amendment therein from time to time.

The Risk Management Committee reviews and reports all transactions referred above to the Board from time to time.

11) Cyber Security Challenges and measures to overcome it:

1. Data & Back up

Backing up business's data and website helps to recover any information you lose if you experience a cyber incident or have computer issues. We use multiple back-up methods to ensure the safety of your important files. Our back up system typically includes:

- daily incremental back-ups to a portable device and/or cloud storage
- end-of-week server back-ups
- quarterly server back-ups
- yearly server back-ups

Portable devices stored separately offsite, which gives a plan b if the office site is damaged. Encryption methods are used while transferring and storing data, and with multi-factor authentication for access.

2. Securing the device and network:

a) Make sure to update software

Operating system and security software are updated automatically. Updates contain important security upgrades for recent viruses and attacks.

b) Install security software

Security software (Seqrite Endpoint Security) is installed on all the computers and devices to help prevent infection. The software includes anti-virus, anti-spyware and anti-spam filters to protect from Malware or viruses which can infect computers, laptops and mobile devices.

c) Set up a firewall

Network i.e. all the computer, devices, etc.. are behind the firewall, It sits between computer and the internet. It acts as the gatekeeper for all incoming and outgoing traffic.

d) Turn on your spam filters

Spam filters are used to reduce the amount of spam and phishing emails that a business receives. Spam and phishing emails can be used to infect your computer with viruses or malware or steal confidential information.

e) Redundancy

Redundant Firewall, Internet and servers are placed to ensure any failover and network does not collapse.

3. Encrypt important information to avoid data tampering/theft:

Network uses encryption and encrypts data when stored. Encryption converts data into a secret code before it sends it over the internet. This reduces the risk of theft, destruction or tampering. It is done by installing a virtual private network (VPN) solution on each device when using a public network.

4. Cyber attack and data leakages

Increasing concern for user data privacy, data leakage, and number of cyber-attacks are the reason for rising attention to the question of data security, which became more relevant in the recent years. The increasing number of devices connected to the Internet not only creates more data but also makes it more vulnerable and not very well protected. Thus, it is critical to keep up with latest trends in the field of data security.

We have adopted below approaches for data security and privacy:

- a) Validation and filtration of end-point inputs: we use an authentic and legitimate end-point device. End-point devices are the entry point for authentic and valid data into the system.
- b) Mandatory Access Control (MAC): in which the access of each user is constrained to a very limited set of tasks and time frame.
- c) Digital signatures using asymmetric encryption: Regular audits and hash chaining are standard practices followed to secure the data.
- d) Monitor logs on a real-time basis to spot anomalies that identify any misuses and abnormality.
- e) Use data tagging and enforced time stamps to help in tracing unauthorized activity.
- f) Encryption of data within the database, access control, masking sensitive data and stringent authorization policies, keeping security patches up to date. Deploying encryption on all data on a granular basis helps ensure that even if there is a system breach, the data itself remains protected.

5. Manage passphrases

Passphrases are used instead of passwords to protect access devices and networks that hold important business information. Passphrases are passwords that are a phrase, or a collection of different words. They are simple for humans to remember but difficult for machines to crack.

Administrative privileges

To avoid a cybercriminal gaining access to computer or network:

Restricted use of accounts with administrative privileges and restricted access to accounts with administrative privileges is assigned.

Administrative privileges allow someone to undertake higher or more sensitive tasks than normal, such as installing programs or creating other accounts. These will be very different from standard privileges or guest user privileges.

6. Monitor use of computer equipment and systems

We keep a record of all the computer equipment and software that your business uses. Make sure they are secure to prevent forbidden access.

We remove any software or equipment that is no longer needed, making sure that there isn't any sensitive information on them when thrown out. As older and unused software or equipment remain part of network, it is unlikely they will be updated and may be a backdoor targeted by criminals to attack business.

Unauthorized access to systems by past employees is a common security issue for businesses. We ensure to remove access from people who don't work for you anymore or if they change roles and no longer require access immediately.

7. Policies in place to guide the authorized staff members

We have a cyber security policy which helps our staff to understand their responsibilities and what is acceptable when they use or share:

- Data
- Computers and devices
- E-emails
- Internet sites

8. Training the Members staff to be safe online

Our staff is the first and last line of defense against cyber threats. We make it sure your staff knows about the threats they can face and the role they play in keeping business safe.

We regularly educate them about:

- maintaining good passwords and passphrases
- how to identify and avoid cyber threats
- what to do when they encounter a cyber threat
- how to report a cyber threat