GAYATRI PROJECTS LIMITED

RISK POLICY AND PROCEDURES

INRODUCTION

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

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

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

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

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

(II) (C) Risk Management

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

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

It 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 organisation.

Risk Strategy:

GPL recognizes 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;
- 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.

The Company has diversified Infrastructure activities and it is committed to excellence. The Company has EPC, Highways, Tollways, Power Transmission and Distribution & Irrigation divisions.

The Company's business comprises:

- Engineering, Procurement and Construction,
- Power generation, Transmission and Distribution (various types)
- Irrigation (Erection, construction of Canals & Dams etc..,)

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

Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the firm. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the firm 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 must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into

Strategic:

- Organizational Growth.
- Sustenance and Growth of Strong relationships with clients.
- Expanding our presence in pan India and penetrating new geographic areas.
- Continuing to enhance our industry expertise.
- Enhance our capabilities through technology alliances and acquisitions.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality execution
- Further develop Culture of Innovative executing methods.
- Attract and retain quality technical associates and augmenting their training.

Reporting:

- Maintain high standards of Corporate Governance and public disclosure.

Compliance:

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

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

Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures

GPL adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Assessment and Minimization Committee with functional heads and the Company Secretary as members. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organisation

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

(1) Risk Assessment

(2) Risk Management

(3) Risk Monitoring.

Risk Assessment

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

Risk Management and Risk Monitoring

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

1. **Economic Environment and Market conditions**

Our major clients concentrated in Govt. and non-govt. and quasi govt. bodies. Economic slowdowns or factors that affect the economic health of our clients and the said industries may increase risk to our revenue growth.

Strategically, we seek to continuously expand the client base to maximise the potential Turnover and at the same time securing additional volumes from existing clients on the basis of our record of satisfactory performance in our earlier dealings. The efforts to enhance quality of service/execution and upgrading their performance parameters are aimed at deriving optimum value from the existing client base and targeting a larger client profile.

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

2. **Political environment**

Any adverse change in the political environment in the country, would have an impact in growth strategies of the company.. However, considering its basic political philosophy, we are reviewing existing and future investment strategies on a continuous basis. Risks that are likely to emanate are managed by constant engagement with the Government of the day, reviewing and monitoring the country's industrial, labour and related policies.

3. **Regulatory approvals**

Delays in land acquisition, ROW approval, Front availability, Environmental clearances etc.

4. **Client related**

Creditworthiness of client, client reputation, status of financial closure - important in case of private sector clients or new international clients etc.

5. **Consortium Risks**

Clarity of risk and liability sharing arrangement between consortium partners etc.

6. **Estimation risks**

Increase in input prices, quantity variations, inadequate provision for contingencies, forex fluctuations etc.

7. **Commercial risks**

Change order approval process, Bank guarantee clauses, payment terms, taxes and duties etc.

8. **Organizational Risks**

Inadequate quality of technical and managerial resources, poor project management / cost control/working capital management, unsatisfactory contracts management etc.

9. **Technical, quality or performance risk**

Clarity about scope of work, meeting performance standards and time schedule etc.

10. Interfacing risks

Inability to co-ordinate with multiple agencies involved in the project from design to commissioning etc.

11. Logistics Risks

Accommodation of project personnel in remote locations, international movement of large number of people, transportation of material to difficult sites etc.

12. External risks

Change/unfamiliar legal or regulatory environment, unfavorable geological conditions and weather, earthquake and floods, foreign currency fluctuations, inflation etc.

13. International Business

Political risk, bureaucracy in environment, legal risks, maturity of banking systems, local labour laws etc.

14. Dispute Resolution

Improper legal clauses, Country specific Arbitration laws, etc.

15. Financial reporting risks

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

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

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

16. 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 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. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to achieve greater predictability and stability. 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.

17. 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.

18. Legal Risk

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

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

The Company has established a compliance management system in the 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 quarterly Secretarial Audit report by a practicing Company Secretary in compliance with clause 49 of the listing agreement.

19. Compliance with local laws

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

20. Human resource management

"The vision of the Company is to achieve Organisational excellence through innovation"

GPL's Human Resources Development (HRD) Department will add value to all its Units and associate companies by ensuring that the right person is assigned to the right job and that they grow and contribute towards organizational 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 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 train them in spheres other than their own specialization. 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.

We seek to provide an environment that rewards entrepreneurial initiative and performance.

Our core values:

- Pursuit of Excellence
- Workers' Welfare
- 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.gayatri.co.in 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.

RISK MANAGEMENT PROCESS IN GAYATRI PROJECTS LIMITED

Risk Policies at all ICs:

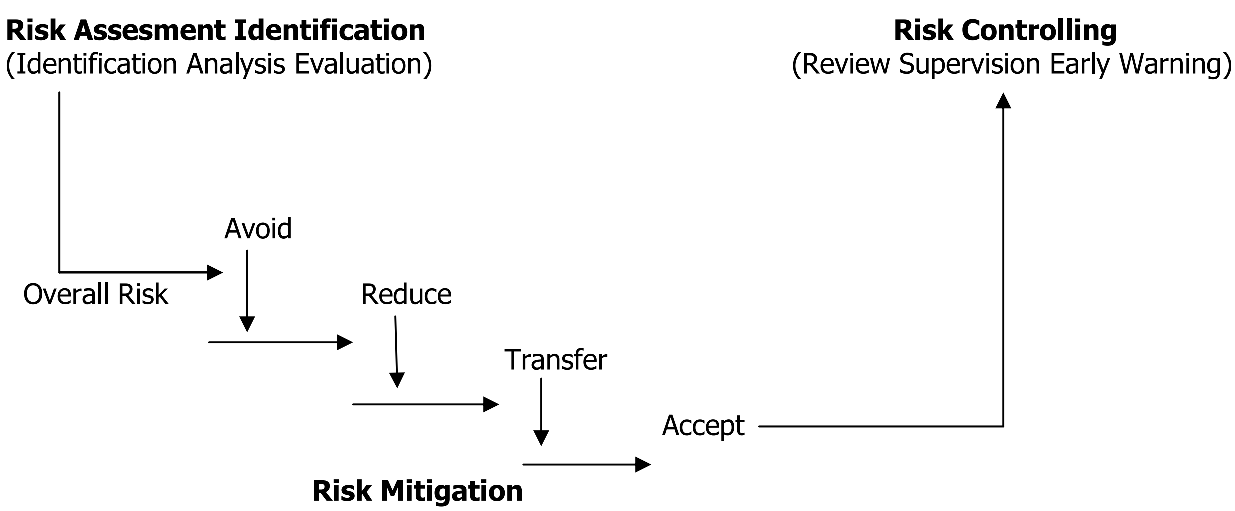
- Objective
- Coverage/Scope
- Organisation structure
- Roles and Responsibilities
- Risk Management Process
- Risk MIS & Reporting

Typical Risk Assessment Process:

Risk assessment:

Indentify risks ⇒ Analyse risks ⇒ Evaluate risks ⇒ Mitigate risks

MITIGATION OF RISKS – TYPICAL PROCESS FLOW



RISK MANAGEMENT

- **Projects are Reviewed at two stages**
  - **Pre-bid Stage**
    - **Reviewed at different management levels based on their value**
    - **Mitigation avenues and bidding stategy discussed**
  - **Execution Stage**
    - **Monitoring of pre-bid stage risk mitigation plans**
    - **Identification and mitigation of new engineering risks**

RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED

1. 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
- 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.

2. 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.

3. Credit Risks:

- Risks in settlement of dues by clients
- Provision for bad and doubtful debts

Risk Mitigation Measures:

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

4. Human Resource Risks:

Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.

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.

5. 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.

6. **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.

7. **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.

8. Foreign Exchange and Interest Rate Risk Management

A. Risk Identification

1. 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 clients.

2. 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.

3. The company's budgeted exchange rates are not be used for quotations or exposure management or performance evaluation of treasury.

B. Risk Measurement

4. Measurement of the risk will be done through the net open position in a currency, multiplied by the predetermined "stop loss" levels. The net open position is the difference between un- hedged receipts and payments in each currency. Stop loss level means the predetermined level at which an un- hedged exposure could be hedged.

The stop loss level has to be applied in relation to a benchmark. The forward exchange rate applicable to the maturity of an exposure, ruling when the exposure is identified for risk management purposes, will be used as the benchmark.

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. 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.

9. DISCLAIMER CLAUSE

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.