CORPORATE RISK MANAGEMENT POLICY

BUTTERFLY GANDHIMATHI APPLIANCES LIMITED

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The Company's Managing Directors and Executive Directors subject to superintendence and control of the Board of Directors are responsible for the directions and superintendence of the Company, its governance principles as well as the establishment of a system of internal control to mitigate material business risks. Company's senior executives in key positions are responsible for the design and operation of its system of internal control, which includes risk management and internal control framework, and for reviewing its effectiveness.

The system of internal control is designed to manage the risks that may prevent the Company from achieving its business objectives and to provide reasonable assurance that all material misstatements, frauds or violations of laws and regulations will be prevented. The internal controls are periodically reviewed by the Managing Directors and Executive Directors in co-ordination with the Chief Financial Officer and heads of other disciplines. Periodically such controls are reviewed by the Internal Auditors, Cost Auditors and Statutory Auditors and their findings are being implemented.

The current economic environment in conjunction with the growth ambitions of the Company carries with it a set of potential risks. The Company recognises that such risks need to be managed to protect its employees, shareholders and customers at large to achieve its business objectives. Therefore, Risk and opportunity management shall form an integral part of the Company's strategy.

An over view of those risks and action taken/proposed to mitigate these risks is given below:

A. STRATEGIC RISKS:

(i) Prices and Markets:

The Company's performance is subject to the fluctuating prices of raw materials and components required for production vis-à-vis market realisation for the finished goods. Factors like natural disasters, political instability, economic conditions, etc., influence the market demand. For example, lower prices realised for its products will mean lower profits. Prolonged unfavourable conditions may result in discontinuance of some product or impairment of assets. The Company proactively hedges these exposures.

(ii) Competitive forces:

While the Company seeks to compete on the basis of product quality, it operates in a cut-throat competitive market, comprising players in both organised and unorganised sectors. It is, therefore, important to manage its costs to ensure it has an edge in pricing over its competitors.

As a risk mitigating strategy, the Company strives to add innovative features to its products diversify its product portfolio and also develop new export markets. It is also investing in updating its plant and machinery to improve product quality/technology and strengthen cost competitiveness.

(iii) Brand and Reputational Risks:

The Company's trade mark 'Butterfly' is one of the leading brands in the country in the domestic kitchen and domestic electrical appliances industry. Hence its brand and reputation is an important asset. The Company has a Code of Conduct that governs how all employees in the Company are expected to operate. Compliance with this Code of Conduct, organisational policies and other regulatory compliance and governance requirements are key to protect the Company's reputation.

(iv) Political instability, acts of terrorism, government policies:

Social or civil unrest within the country can have an impact on the Company's operations. Potential developments that may impact its business operations include government pricing policy, economic policy, acts of terrorism or civil unrest that may have an impact on safe operations of its facilities and transportation of its products.

B. OPERATIONAL RISKS:

(i) The changing technologies and the natural ageing of existing facilities pose the risk of production plants becoming obsolete and uneconomic. Aged plants are prone to sudden shutdowns and increased maintenance and operating costs. Deployment of new technologies and on-going maintenance processes are key to enhancing the reliability of operations and reduction in operating costs, while improving the safety of operating conditions and extending the useful life of assets.

(ii) Health, Safety, Security and Environmental Risks:

The Company follows the policy that 'safety of persons overrides all production targets'. It strives for excellence in safety management for the benefit of its employees, customers and the communities living around its factories.

C. FINANCIAL RISKS:

(i)Treasury Risks:

Treasury Risks include exposure to movements in interest rates and foreign exchange rates. The Company is exposed to fluctuating dollar prices, as some of its purchases of raw materials and components are imported.

The Company has put in place its Treasury risk management policies which provide the framework for decision making for arresting the following risks.

(a) Interest Rate Risk:

The Company borrows funds from Banks/Financial Institutions to meet its short term and long term funding requirements. It is subject to risk arising from interest rate fluctuations from time to time as per directives of the Reserve Bank of India.

In order to keep its interest rates competitive to the extent possible, the Company is obtaining CRISIL ratings annually and is also having tough negotiations with its consortium banks at the time of renewal of the sanctioned credit facilities.

(b) Foreign Exchange Risk:

The major currency to which the Company is exposed is US Dollar. The Company is covering this risk by way of hedging arrangement with different banks, depending on the best rates quoted.

(c) Compliance Risk:

The regulatory environment in the country is becoming more and more stringent, necessitating the balancing of Company's performance objectives on the one hand and ensuring compliance with regulatory requirements on the other. Company recognises that regulatory requirements can act both as a threat and also a source of competitive advantage. Therefore, it will:

- Strive to understand the changing regulatory standards so as to strengthen its decision making processes and integrate these in its business strategy.
- Drive business performance through the convergence of risk, compliance processes and control mechanisms to ensure sustained operational efficiency and effectiveness.
- Explore significant opportunities arising out of changing regulatory landscape to realign business processes and strategies.

(d) Risk of Bad Debts:

In the sales operations of small kitchen and electrical appliances sector to which the Company belongs, it is indispensable that supply of goods to distributors/dealers is made on credit basis, ranging from minimum 60 to 90 days which, depending on prevailing market conditions may get extended further.

The Company's sales team maintains close follow up with respect to the collection process to minimise the loss arising from bad debts.

(e) Competition Risk:

The Company is exposed to tough competition from the organised and unorganised sectors in the small home appliances segment. Therefore, it has to be always cautious and has to keep a close watch on competitors' activities.

Our marketing team regularly gets feedback from the market about the competitors' activities and the marketing strategy is reviewed frequently to cope with the competitors.

(f) Inflation Risk:

The risk of inflation is significant because the Company will not be in a position to revise the prices for its products in line with the inflationary trend, especially because, it has to watch the competitors reaction, as well as the consumers' resistance to any frequent price changes in the small home appliances market.

In order to maintain price line, the Company resorts to re-engineering of the cost structure of its products to act as a buffer against inflationary trends.

(g) Intellectual Property Risk:

The Company's registered Trade Mark 'Butterfly' is well known all over the country and many unscrupulous manufacturers/traders are vying to get this brand registered for their products.

Instructions have been given to Company's Trade Mark Attorneys to keep a close watch on such applications to the Trade Mark Registry so that to their attempts for any fraudulent registration can be nipped in the bud.

(h) Geographical Risk:

The Company has a well-structured dealership network covering all strategically important centres all over the Country. By maintaining quality, price line and efficient after sales service, the geographical risk is mitigated.

(i) Inventories Risk:

Inventories form a substantial part of a Company's production cost irrespective of the size and product line. It is taken to be an important component of working capital and its management is one of the key areas in which the management of the Company has to devote much of attention.

The Company keeps a constant watch on inventories. They are neither allowed to be built up unnecessarily, nor does production suffer for want of material. The optimum level of inventory is fixed, enabling the Company to meet its production and sales needs unhampered and, at the same time to have minimum possible investment with maximum profits.

(j) Hacking Risk:

With the digitalisation of all business dealings, there is the threat of hacking of the computer system.

As a precautionary measure to arrest hacking risk, the following procedures are implemented:

1. The IT Department takes care of blocking all unwanted websites, blocking spam mails and restricting executable files download.
2. Establishment of Local LAN security.
3. Frequent change of password for all user accounts.
4. Spoofing restricted.
5. 'Do's and Dont's' list.

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