

Kirloskar Industries Limited

Risk Management Policy

Kirloskar Industries Limited
A Kirloskar Group Company

Regd. Office: Cello Platina, Office Number 801,
Fergusson College Road, Shivajinagar, Pune- 411005
Tel: +91 (20) 29704374
Fax: +91 (20) 29704374
Email: investorrelations@kirloskar.com
Website: www.kil.net.in
CIN: L70100PN1978PLC088972

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1. Overview

1.1. Introduction

Kirloskar Industries Limited (the Company) is a part of the Kirloskar Group and is engaged in the business of windmill operations, investments (securities and properties) and real estate activities (through its wholly owned subsidiary). The Company faces several risks in its business environment. The ability to create sustainable value is dependent on recognizing and effectively addressing key risks that exist in this environment. To address these challenges, the Company has adopted a robust Risk Management programme.

The Risk Management programme of the Company does not aim at eliminating risks, instead it is focused on ensuring that risks are known and addressed. In addition to enabling the Company to achieve its strategic objectives, the programme pivots around its core values and its commitment to its stakeholders.

1.2. Regulatory Requirements

Regulatory agencies in India have prescribed guidelines and mandates for institution of risk management in a Company.

- The Companies Act 2013, (the Act) requires the Board members to disclose a statement in the Board Report about development and implementation of a risk management policy for the Company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company. The Audit Committee is required to evaluate risk management systems of the Company. Further the Act requires Independent Directors to satisfy themselves that the integrity of financial information, that financial controls, and the systems of risk management are robust and defensible.
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, (the Regulation) requires that the Board defines roles and responsibilities of Risk Management Committee (RMC) which shall specifically cover cyber security, business continuity and report on Environmental, Social and Governance (ESG) sustainability activities of the Company.

Accordingly, the Board of Directors (the Board) of the Company has adopted the 'Risk Management Policy' (the Policy) which will come into effect from 30 October 2021.



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2. Definitions and Abbreviations

a. Risk

Any event / non-event, the occurrence / non-occurrence of which can adversely affect the achievement of objectives of the Company. These threats may be internal or external to the Company. Risk also includes any uncertainty arising out of deficiency of information related to an event or consequence likely to have an effect on the objectives / existence of the Company.

b. Risk Management

A structured, consistent and continuous process; for identifying, assessing, deciding on responses to and reporting on, the opportunities and threats that may affect the achievement of our objectives.

c. Risk Register

A compilation of risks that the Company faces or may be exposed to in achieving the business objectives. It includes listing of the risk events, potential impact, risk rating (derived from impact and likelihood of risk ascertained during risk review exercise) and risk owners.

d. Risk Owners

The persons who are directly responsible for identifying risk events, devising mitigation plans and monitoring the implementation of mitigation plans so as to reduce the risks while achieving business objectives as set out in the Annual Business Plans. The risk owners are identified / nominated by the Risk Management Committee (RMC).

e. Mitigation Plans

Measures (existing and proposed) to mitigate / monitor / transfer the identified Risks.

f. Risk MIS (Reporting)

Periodic reports to the RMC, the Audit Committee and the Board on risk management programme, risk mitigation plans and their effectiveness.

3. Objectives of the Risk Management Policy

The objective of the Policy is to ensure the adequate systems for risk management. The specific objectives of this Policy *inter alia* are:

- Develop and institute a robust system for identification, assessment, mitigation and management of current and future material risk exposures of the Company. Such exposures which are internal or

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external to the Company may be operational, financial, impacting sustainability (e.g. ESG related), IT and cyber security related etc.

- Institute a framework for monitoring the action plans for mitigation of risk exposures and for implementation of internal controls over risks identified.
- Monitor risks that may threaten existence of the Company / cause significant disruptions and institute a business continuity plan.
- Ensure that sound business opportunities are identified and pursued without exposing the business to an unacceptable level of risk.
- Establish a framework for the Company's risk management process and to ensure Companywide implementation.
- Enable compliance with appropriate Regulations, wherever applicable, through the adoption of best practices.
- Assure sustainable business growth with financial stability.

4. Risk Management Framework

The Company has adopted a comprehensive Enterprise Risk Management approach to identify and manage risks at an enterprise level.

Through this framework, the Company plans to instill a risk aware culture across the Company and highlight areas of focus for Management to make informed decisions to reduce the threats to the Company's business and growth objectives.

Risk Management Framework at the Company comprises of:

- **Risk management process:** Risk management process is the process followed by the Company for risk identification, risk rating, risk mitigation and review and monitoring of risk management activities. The details of the risk management process at the Company are in **section 4.1** of this Policy document
- **Risk management governance structure:** The Risk Governance structure defines the overall structure within which the Risk Management process operates. Based on the structure and the defined roles and responsibilities, the various stakeholders identified in the risk management structure perform the various steps in the risk management process, that is, identify risks, evaluate risks, then mitigate and monitor them. The Risk Governance structure at the Company comprises the following stakeholders:
 - Board
 - RMC
 - Risk Coordinator (CFO)
 - Risk Owners



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The roles and responsibilities of the stakeholders in the Risk Governance Structure is highlighted in **section 4.2** of this Policy document.

4.1 Risk Management Process

The process of Risk Management covers the following:

4.1.1 Identification and categorization of risks

The aim of this step is to generate a “Risk Register” – a comprehensive list of risks based on events that impact (adverse or favourable) on achievement of objectives. It is important to identify the risks that may materialize in an event of loss of opportunities.

The risks may trigger from events internal or external to the organisation. The Company classifies such internal and external risks into the following broad categories:

Risk Category	Description
Strategic Risk	<p>These risks typically emanate from strategic decision of the Company concerning an organisation’s objectives. Essentially, strategic risks are the risks of failing to achieve these business objectives.</p> <p>E.g., Governance risk, major initiatives (mergers/acquisitions), disruption and business continuity, sustainability (particularly ESG related risks), investor relations, etc.</p>
Operational Risk	<p>Risks occurring due to inadequate or failed internal processes, gaps in people organisation, information systems and technology, or from external events that may or may not be controlled.</p> <p>Operational risks can be further classified into:</p> <ul style="list-style-type: none"> • People: Risks associated with Human Resources of the Company such as hiring and retention of the right talent, worker and labour management, attrition of key employees. • Information Technology: Failure or disruption of systems, cyber-attacks, information security, loss of critical data management and integration of business applications. • Real Estate Activities: Risks arising out of business partners (extended enterprises) such as vendors, subcontractors, fluctuations in commodity prices.



Risk Category	Description
Financial Risk	Possibility of financial losses, reduction in profitability of the Company. Some more common financial risks include working capital crunch, financial losses due to incorrect or no hedging, foreign exchange fluctuations etc.
Statutory/Compliance Risk	Risk emanating from non-compliance of various statutory, regulatory, legal provisions and contractual obligations leading to penalties, litigation etc. This includes adherence to internal policies and industry standards.
Reputational Risk	Risk events that negatively impact brand's reputation and image in the marketplace. Damage to a Company's reputation can result in decreased revenues, failure to meet key business objectives, loss of market share, reduced shareholder value and in some cases, financial insolvency or bankruptcy. Common reputational risk events include misleading investors/public, ethical misconduct by employees, poor working conditions etc.

4.1.2 Risk Rating

The Company has defined the risk rating matrix basis inputs from the RMC. The Company uses this risk rating matrix for assessing the severity / level of every risk in the Risk Register – this is called the risk score. Risk Score is based on the following:

Impact of the Risk on Company's Objectives and Goals:

The degree of impact / consequences on the objectives of the Company should the event occur.

Likelihood of occurrence of the risk:

The likelihood of the event is the probability / chances of occurrence of a risk event. Occurrence can be expressed as an annual frequency of occurrence of the risk event.

Risk Rating (Risk Score):

Risk Rating or Risk Score is the product of Impact and Likelihood of a risk and is important to determine the risk levels.

Risk Score = Risk Impact * Risk Likelihood

Risk Rating will be assigned by Risk Owners and his / her team and based on their assessment of the risk and will be revised considering the mitigation actions taken as and when the risk is reviewed.

The Risk rating matrix is appended in **section 5.2** of this Policy document.

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4.1.3 Risk Mitigation

Risk Mitigation is the process of selecting and implementing of mitigation plans to mitigate / modify (reduce the risk score) of risk. Based on Company's risk appetite, a Risk Mitigation Plan is defined by the Risk Owners for each identified risk.

4.1.4 Risk Monitoring and Review

The Company operates in a dynamic environment and hence it is necessary to regularly review, evaluate and update the Risk Register, the Risk scores and the Mitigation plans. The responsibility of the stakeholders in risk monitoring and review is detailed in section 4.2 of this Policy document

4.1.5 Risk Activity Calendar

The frequency of the various activities in the risk management process are defined in the risk activity calendar in section 5.1 of this Policy document

4.2 Risk Management Governance Structure

The Risk Management organization structure would involve the following stakeholders:



The Roles and Responsibilities of the stakeholders in the Risk Management structure are as follows:

4.2.1 Board of Directors

- The Board defines the role and responsibility of the RMC and delegates monitoring and reviewing of the risk management plan to the Committee and such other functions as it deems fit.

- With assistance of the RMC, the Board is responsible for supervision of risk management activities and implementation of adequate tools for risk management across the Company.
- The Board reviews the comprehensiveness and effectiveness of the Company's risk management activities on an annual basis.
- The Board includes a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company in the Directors Responsibility Statement.

4.2.2 Risk Management Committee

Following are broad responsibilities of the RMC (as per the SEBI (LODR) (second amendments) vide notification No. SEBI/LAD-NRO/GN/2021/22 dated 5-May-2021):

- To formulate a detailed risk management policy.
- To institute a risk management process for identification of risks with a specific focus on financial, operational, industry sector of Company and customers, sustainability (particularly ESG related risks), information and cyber security risks.
- To review emerging risks and assess addition to the Risk Register and also critically assess removal of risks from the Risk Register.
- To deploy enablers for Risk mitigation via introduction tools and processes for internal control of identified risks.
- To establish, review Business continuity plan.
- To ensure that appropriate methodology, processes, and systems are in place to monitor and evaluate risks.
- To supervise and facilitate implementation of risk management policy and framework.,
- To periodically review the risk management policy, at least once every two years, considering the changing industry dynamics and regulatory requirements.
- To update the Board about the evolving changes in the risk universe (landscape) and recommend actions to be taken.

The RMC has powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary for the discharge of its obligations

As per the amended SEBI guidelines the RMC is responsible to focus on:

- a. Business Continuity Plan:** Business continuity plan refers to maintaining business operations or quickly resuming them in an event of a major disruption caused by natural disasters, fires, cyberattacks, pandemic etc. The Company shall have well documented Business continuity plan for any contingent situation covering all perceivable circumstances. The Business continuity plan may be reviewed and amended by the RMC.

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- b. **Environmental, Social and Governance (ESG):** Top 1000 Listed Companies on the basis of market capitalisation calculated as on March 31, of the preceding financial year, are required to disclose Business Responsibilities and Sustainability Report (BRSR). According to the guidelines the Company has to provide an overview of the entity's material ESG risks and opportunities, approach to mitigate or adapt to the risks along with financial implications of the same.
- c. **Cybersecurity:** It is the RMC's responsibility to oversee risks branching out of cyberattacks and their mitigation controls.

Composition of RMC:

As per the revised SEBI regulations the RMC shall have minimum three members with majority of them being members of the Board, including at least one independent director.

Meetings of the RMC:

RMC shall meet at least twice (earlier once) in a year. The meetings of the RMC shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings.

4.2.3 Risk Coordinator (CFO)

The Chief Financial Officer('CFO') will play an important role for the success of Company's Risk Management activities. CFO will act as 'Risk Coordinator' and work with the RMC in the deployment and monitoring of the risk management programme and policy. The Chief Financial Officer will be a permanent invitee to all the RMC meetings. The CFO will work closely with the RMC and Risk Owners to identify risks and facilitate development of risk mitigation plans.

As the driver of Risk Management activities, the CFO will facilitate the execution of risk management processes and strengthen risk management infrastructure. Following are the key responsibilities of the CFO with respect to Risk Management.

- Support the Board, the Audit, the RMC and Managing Director to establish and communicate the organization's ERM objectives
- Develop and communicate risk management policies.
- Facilitate risk management activities such as assessing Risk Scores and monitoring of Risk Management activities.
- Assist in establishing, communicating and facilitate the use of appropriate ERM methodologies, tools and techniques.
- Facilitate identification of new risks.

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- Work with RMC and Risk Owners to establish, maintain, and continuously improve risk management capabilities.
- Enable effective alignment between the risk management process and internal audit.

4.2.4 Risk Owners

Risk Owners are typically Business Heads / Function Heads who will assess the risk by determining its probability of occurrence and its impact with an objective of reporting key risks to the Risk Coordinator (CFO) and the RMC.

Key responsibilities of the Risk Owners include:

- Identification of new risks
- Communication of evolving new risks and changes in the status of previously identified risks.
- Reporting failures of existing control measures.
- Updating the risk registers of their domains.
- Providing RMC with controls and “good to have” controls for critical process of their domains.

5. Enablers

5.1 Risk Management Activity Calendar.

Activity	Frequency
Risk Identification and refresh of Risk Register	Annually
Review of select risk and status of risk mitigation plans as determined by RMC	Quarterly by the RMC, the Audit Committee and the Board
Review by RMC of Risk Management Program and deployment of Risk Management Policy	Biannually (with gap between two meetings no more than 180 days)

5.2 Risk Rating Matrix

The Company has defined the risk rating matrix as below:



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Probability Rating	Overall Risk Rating
1= Very Low (Improbable) 2 = Low (Unlikely) 3 = Moderate (Less than Likely) 4 = High (More than Likely) 5 = Very High (Probable)	Red = High Yellow = Medium Green = Low
Impact Rating	<div><div><div><div><div>5</div><div>4</div><div>3</div><div>2</div><div>1</div></div><div>IMPACT</div></div><div><div><div>5</div><div>4</div><div>3</div><div>2</div><div>1</div></div><div><div><div>5</div><div>4</div><div>3</div><div>2</div><div>1</div></div><div><div><div>10</div><div>8</div><div>6</div><div>4</div><div>2</div></div><div><div><div>15</div><div>12</div><div>9</div><div>6</div><div>3</div></div><div><div><div>20</div><div>16</div><div>12</div><div>8</div><div>4</div></div><div><div><div>25</div><div>20</div><div>15</div><div>10</div><div>5</div></div></div></div><div><div>LOW</div><div>LIKELIHOOD</div><div>HIGH</div></div><div><div>1</div><div>2</div><div>3</div><div>4</div><div>5</div></div></div></div></div></div></div></div>
1= Very Low (Negligible) 2 = Low (Minor) 3 = Moderate (Significant) 4 = High (Substantial) 5 = Very High (Grave)	

6. Review of the Policy

This policy will be reviewed and revised once every two years or if there is a change in Regulation / requirements by regulatory body.

For and on behalf of the Board of Directors
Of Kirloskar Industries Limited



Atul Kirloskar
Chairman
Place: Pune
Date: 30.10.2021



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