# BAL PHARMA LIMITED

# RISK MANAGEMENT POLICY

**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 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 minimise their adverse impact on the organization.

**Risk Strategy:**

**Bal Pharma** 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 Bal Pharma Limited is a diversified company committed to excellence. The Company has Active Pharma Ingredients (API's), Formulations, Ayurvedic divisions, supplying its products to the regulated and semi/unregulated markets of the world, including domestic markets.

• 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.
• Comprehensive range of products.
• Sustenance and Growth of Strong relationships with dealers/customers.

• Expanding our presence in existing markets and penetrating new geographic markets.

• Continuing to enhance our industry expertise.

• Enhance our capabilities through technology alliances and acquisitions.

**Operations**:

• Consistent Revenue growth.

• Consistent profitability.

• High quality production.

• Further develop Culture of Innovation.

• 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 Bal Pharma 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 organization.

We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; and Subsidiary 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 customers are concentrated in developed and semi developed and developing worlds. Economic slow downs or factors that affect the economic health of our customers' countries 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 to enhance quality of products and upgrading their performance parameters are aimed at deriving optimum value from the existing customer base and targeting a larger customer profile. 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 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.

**3. Political Environment**

Any adverse change in the political environment in India and in the countries to which the company regularly export its products, would have an impact in growth strategies of the company. As a policy, however, India is fast becoming an emerging economy and due to compulsions of global competitive forces, are stabilizing its industrial policy with considerable reforms to attract foreign investment in various spheres.

Risks that are likely to emanate are managed by constant engagement with the Government of the day, reviewing and monitoring the country's industrial, labor and related policies and involvement in representative industry-bodies.

**4. Competition**

The markets for pharmaceutical products 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 Pharma sector.

We believe that we are strongly positioned in our designated market commanding a premium for our products.

**5. Revenue Concentration**

High concentration in any single business segment exposes the company to the risks inherent in that segment. We have adopted prudent norms based on which we monitor and prevent undesirable concentration in a geography, industry, or customer. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks. Concentration of revenue from any particular segment of industry is sought to be minimised over the long term by careful extension into other activities, particularly in areas the company has some basic advantage such as availability of infrastructure , technical know how or manpower resources.

**6. Inflation and Cost Structure**

The cost of revenues consists primarily of raw materials including tablets, capsules ,liquids , bulk drugs , packing materials 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 including contacts with exporters of bulk drugs 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.

**7. Technological Obsolescence**

***Bal Parma's philosophy is to 'Modernize, Indigenize, 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. Established contacts with leaders in technology, particularly in the areas of the company's operations, have dividends in our ability to access to newer and evolving processes and their applications in the manufacture of both bulk drugs and formulations. This has led to the company establishing a lead with customers and sharing with them the benefits of such technological advances quicker than the market. Floating of a separate company by name BAL RESEARCH FOUNDATION which is a non profit making company dealing with the research and study in the field on Allopathy, Ayurvedic and API's has been a key initiative in this direction.

The company's policies also include a favorable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements

**8. 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 are significant and adequate.

**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 favorable 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 organization and assign responsibility for leaving the overall effort to a senior individuals like Chief Financial Officer etc

**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 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.

**10. 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 in house experts and outside consultants to mitigate this risk.

**11. Quality and Project Management**

For years, Bal Pharma is engaged in manufacture of formulations and API's for various markets as per mutually accepted requirements of the Customers.

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

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

We are accredited with various quality certifications and is in the process of obtaining the US FDA approval.

**12. Environmental Risk Management:**

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

The legal exposure in this regard is when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding, is an offence.

Extensive plantation of trees around manufacturing plants is undertaken for green belt development. Besides, the company strictly follows the policy and commitment to create green belts around its manufacturing facilities.

**13. Human Resource Management**

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

Bal Pharma'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.

**14. 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:

• Pursuit of Excellence

• Quality  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.balpharma.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 products 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 organization and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organization 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 programme's.
- Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.

**1) 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 organization.
- 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 utilize 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 L.Cs and Bank guarantees and steps to protect undue fluctuations in rates etc.

**2) 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 credit worthiness 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.

**3) Logistics Risks:**

• Use of outside transport sources.

**Risk Mitigation Measures**:

- Exploring possibility of an in-house logistic mechanism if the situation demands.

• Possibilities to optimize the operations, by having a combination of transportation through road/ rail and sea/air are explored.

• Company has a dedicated logistics group to handle all requirements relating to movement of raw materials , semi finished goods, finished goods , capital goods etc as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects. All the movement of goods is sufficiently covered by marine risk insurance.

**6) 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.

**7) 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.

- Labor 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.

**8) 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.

**9) 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.

**10) 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.

**11) 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.** The company enjoys natural hedging against all the exchange fluctuations as it deals with similar currency i.e USD for both exports and imports and as most of the raw materials are procured locally, around 60% of the revenues of the company is from export sales as against  30% of the raw material cost incurred in foreign currency.

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