RISK MANAGEMENT & SUSTAINABILITY 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.

In accordance with Section 134(3)(n) of the Companies Act, 2013, a company is required to include 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 and further as per Regulation 17 of the SEBI (LODR) Regulations, the board of directors shall be responsible for framing, implementing and monitoring the Risk management plan for the listed entity.

Accordingly, to mitigate and manage risk at "The KCP Limited" (hereinafter referred to as the "Company"), the Company has formed the policy (the "Risk management Policy") for the same. This document shall be under the authority of the Board of Directors of the Company.

This policy seeks to identify risks inherent in the operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

Pursuant to SEBI (LODR)Regulations, 2015 as amended the Key functions of the board of directors include:

- Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.

- Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

- The board of directors shall ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the listed entity to excessive risk.

- The board of directors shall have ability to 'step back' to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the listed entity's focus.

- The listed entity shall lay down procedures to inform members of board of directors about risk assessment and minimization procedures.

- The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.

Risk Management Committee.

Regulation 21 of the SEBI (LODR)Regulations, 2015 provides that:

The board of directors shall constitute a Risk Management Committee.

The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director.

The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.

The risk management committee shall meet at least twice in a year.

The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

The meetings of the risk management committee 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.

The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security:

The role of the committee shall, inter alia, include the following: (Part D of Schedule II to SEBI (LODR).

(1) To formulate a detailed risk management policy which shall include:

(a) A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.

(b) Measures for risk mitigation including systems and processes for internal control of identified risks.

(c) Business continuity plan.

(2) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;

(3) To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;

(4) To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;

(5) To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;

(6) The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee. The Risk Management Committee shall coordinate its activities with other,

Risk Strategy:

KCP 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 K.C.P Limited is a diversified manufacturing company committed to excellence. The Company has Engineering, Cement, Power and Hospitality divisions

The product range of the company comprises:

- Manufacture & marketing of Cement
- Engineering Division with facilities for casting, fabricating and machining heavy equipment for Cement, Sugar and Power sectors besides general engineering products
- Captive power generation (Hydel, Thermal, Solar and Wind power) with state-of-the art and eco-friendly technology
- Hospitality Industry (Mercure Hyderabad KCP)

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.

KCP 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 Directors and functional heads 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; 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 customers concentrated in Sugar, Cement, Power and infrastructure industries. 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 maximize 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. Political environment

The Company has established a subsidiary Company in Republic of Vietnam, KCP Vietnam Industries Ltd, which is engaged in sugar production.

Any adverse change in the political environment in that country would have an impact in growth strategies of the company. However, Vietnam is also 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. 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 other related policies and involvement in representative industry-bodies.

3. Competition

The markets for Cement 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 cement sector.

We believe that we are strongly positioned in our designated market commanding a premium for our product. However, with the expansion of our capacity in Muktyala with locational and cost advantages, our marketing strategies are being evolved to cover a wider marketing area. Proposals to take the product nearer the dealer with packing plants and reducing transport costs with proposals for dispersed grinding units are part of this strategy. Exploiting the traditionally strong relationship with our dealers to market the higher production of cement is an equally valid strategy being pursued.

It is also believed that the engineering expertise of the company in the manufacture of cement equipment, technical know-how within the company, the emphasis on high quality will also substantially minimize the impact of market fluctuations compared to other players.

Additionally, efforts to bring down the cost of production are being implemented with a reduced workforce backed by high-end production technology, establishment of captive power generation in the factory area itself, brand exploitation with common media publicity promotion etc.

4. 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 minimized over the long term by careful extension into other activities, particularly in areas the company has some basic advantage such as availability of land, technical or manpower resources.

5. Inflation and cost structure

The cost of revenues consists primarily of raw materials including coal, clinker, power; sugarcane 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 coal and other material.

At organizational level, cost optimization 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.

6. Technological obsolescence

KCP'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 capital goods. 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. The establishment of a Joint Venture for the marketing of sugar technology and of plant and equipment for the sugar industry with a world leader in that field 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

7. Financial reporting risks

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) regulations, 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 maintain 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 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.

8. 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.

9. Risk of Fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of Misusing or misdirecting of funds, overstating revenues, understating expenses etc.

Procurement fraud is the second most frequently reported form of economic crime in the Industry. Procurement fraud is one of the most complex frauds to investigate as there are numerous ways it can be committed. Create a anti-fraud plan within the Company and enable it to secure the benefits by Critical review of all high value contracts

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 manualsand a host of other steps throughout the organisation and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

10. 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

With the ever evolving regulatory framework in the country, the risk of non-compliance and penalties loom large and carry reputations risks. Company has taken steps to automate the compliance procedures and has deployed adequate measures for periodic review mechanisms of the regulatory framework to ensure complete compliance with all statutes.

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.

11. 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.

12. Quality and Project Management

For years KCP is engaged in manufacture of Heavy engineering equipment for various 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 PERT charts, 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.

KCP, a pioneer in producing premier Cement 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 Engineering, Cement Plants respectively.

13. Environmental Risk Management:

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

Greenhouse gas emissions from cement manufacturing pose a serious environmental threat. With stringent emission norms, the production process needs to be made environmentally sustainable. The cost of implementing new production processes that help reduce emissions is very high

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.

For control of water pollution the Company has setup a sewage treatment plant at its Cement plant, Macherla for the treatment of sewage/effluent and it is further used for gardening and plantation and the industrial wastewater generated from the plants is re-circulated into the process.

The Company has setup the bag filters to arrest the air pollution from the kiln & Raw mill, clinker cooler, coal mill and cement mill stacks, Dust collectors are provided at all transfer points and rubber babblers are also arranged at all transfer points to avoid fugitive emissions

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 in the excavated mining areas and also do this on a continuing basis as and when specified tracts of land are fully and totally mined and vacated.

The cement division in Macherla has a system of a Waste Heat Recovery and the Muktyala project is being implemented with six stage pre heaters to capture the energy that would otherwise get released into the atmosphere.

14. Human resource management

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

KCP'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.

15. 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
- Industrial Promotion
- Export Promotion
- Workers' Welfare
- Productivity
- Safety
- Industrial Relations
- Environment Improvement

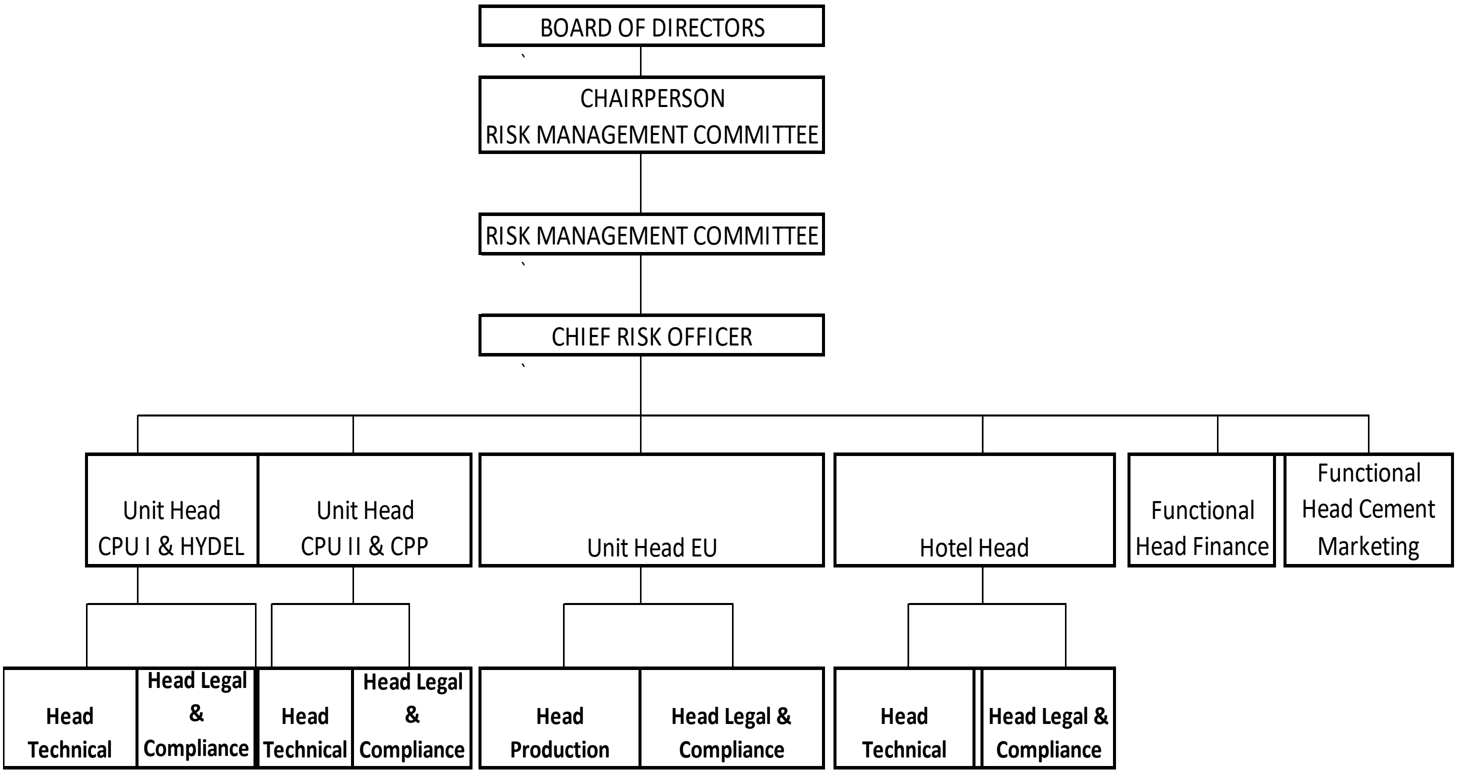
These are guiding parameters for all organization-wide initiatives.

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.kcp.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.

16. RISK MANAGEMENT ORGANISATION STRUCTURE:

ORGANISATION STRUCTURE FOR RISK MANAGEMENT COMMITTEE



17. SUSTAINABILITY POLICY

In our continued efforts to enhance disclosures on Environment, Society and Governance (ESG) and in alignment with the National Guidelines for Responsible Business Conduct (NGRBC).

Our principles:

We will

- Follow highest standards of Governance and transparency
- Keep People, Planet and Profit at the core of our strategy
- Recognize that the conservation and responsible management of biodiversity are important for our business and society in which we operate.
- Recognize that energy conservation and low carbon emissions our priorities in policy making.
- Respect the human rights at our business units and protect the interest of our employees/workers and communities around our operations (including our contractors and suppliers).

Our Approach:

We will

- Adopt and ensure business integrity by implementing appropriate internal codes of governance and organizational procedures.
- Conduct all our operations in an environmentally responsible manner by using non-carbonaceous raw material, renewable energy and fuels, coprocessing wastes to reduce our greenhouse gases (GHG) footprint as part of our Climate Change mitigation initiative.
- Adopt most energy efficient technologies in manufacturing process and recover waste heat from the process to reduce energy intensity.
- Invest in research and development of environmentally sustainable products which have a low ecological footprint.
- Make continuous efforts to reduce water intensity and fresh water usage by increased use of harvested and recycled water in our operations.
- Assess biodiversity quality in all our extraction sites and strive to create positive impact, to Work with local communities with a focus on holistic development of host communities and create social, environmental and economic value to the society.
- Ensure no harm anywhere to any one in our entire operations as part of our commitment towards health and safety of all people involved by providing proper working conditions, equipment, information and training.
- maintain good working conditions that provide fair and equal employment opportunity for all employees to maximize their career growth with enhanced skills and to create a favorable environment to work as an effective team

- Establish and strengthen relations with customers and suppliers based on transparent disclosure of information and shared commitments.
- strive to improve the quality of products, processes and services
- Continue to monitor and report the performance of all sustainability indicators to our stakeholders.

18. RISK REPORTING

Reporting is an integral part of any process and results of Risk assessment need to be reported to all relevant stake holders for review, inputs and monitoring.

The **Risk Unit Owners** would be required to prepare unit level risk evaluation reports on a quarterly and annual basis and submit the same to the CRO through Unit Level Risk Management Committees.

Quarterly Risk Review Reports

The Risk Unit Owners and the Unit Level Risk Management Committee shall identify emerging/new risks and the existing control to mitigate that risk.

They must ensure robustness of design and operating effectiveness of existing mitigating controls and prepare, implement new action plan for risk treatment in situations where the existing controls are inadequate.

The Risk Unit owner will be responsible for preparing and consolidating the report and the same shall be reviewed by the Site Level Risk Steering Committee.

Annual Risk Review Reports

The Risk Unit Owners shall review the respective Risk Database annually and evaluate if any changes are necessary to mitigate the risks and re-rate the existing risks if applicable and ensure effectiveness of design and operating effectiveness of existing mitigating controls.

The CRO would be required to prepare on a quarterly basis a report for the Chairperson of the Risk Management committee detailing the following:

- List of applicable risks for the business, highlighting the new risks identified, if any and the action taken w.r.t the existing and new risks;
- Prioritized list of risks highlighting the Key strategic and operational risks facing in the organisation.
- Root causes and mitigation plans for the Key Risks.
- Status of effectiveness of implementation of mitigation plans for the Key Risks identified till date

The Risk Management Committee of the Company would be required to submit report to the Audit Committee and Board of Directors on annual basis the following:

- An overview of the risk management process in place;
- Key observations on the status of risk management activities for the year, including any new risks identified and action taken w.r.t these risks;
- Status of effectiveness of implementation of the mitigation plan for key risks

The Business Responsibility and Sustainability Report (BRSR)

We will publish the Business Responsibility and Sustainability Report (BRSR) in our Annual Report with an overview of the company's material ESG (Environmental, Social and Governance) risks and opportunities, approach to mitigate or adopt to the risks along with financial implications of the same and the sustainability related goals and targets and performance against the same.

19. 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.