



Exceeding Expectations...Always

PEARL GLOBAL INDUSTRIES LIMITED

Risk Management Policy

1. BACKGROUND

Pearl Global Industries Limited (“the Company”) is engaged in the manufacture and export of Readymade Garments to the Customers in USA, UK and other countries.

This Policy is formulated as per the provisions of Section 134(3), 177(4), 149(8) and Regulation 4, 17 and 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“the Listing Regulations”). This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in any business operations of the Company and lays down the mitigation methods which are periodically reviewed and modified in a manner commensurate with the size and complexity of the business.

The Board of Directors of the Company shall form a Risk Management Committee (hereinafter referred to as “Committee”) who shall periodically review this Policy so that the Management controls the risk through properly defined network. The Board of Directors may re-constitute the composition of the Committee, as it may deem fit, from time to time.

The responsibility for identification, assessment, management and reporting of risks and opportunities will primarily rest with the business managers. They are best positioned to identify the opportunities and risks they face, evaluate the risk, and manage them on a day-to-day basis.

The Risk Management Committee shall provide oversight and will report to the Board of Directors who have the sole responsibility for overseeing all risks.

2. DEFINITIONS

- 3.1 “Act”** means the Companies Act, 2013 and Rules framed thereunder, as amended from time to time.
- 3.2 “Company”** shall mean Pearl Global Industries Limited.
- 3.3 “Board”** means Board of Directors of the Company.
- 3.4 “Directors”** mean Directors of the Company.
- 3.5 “Senior Management”** shall mean officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally this shall comprise all members of management one level below the Managing Director and shall specifically include Company Secretary and Chief Financial Officer.
- 3.6 “Risk Management Committee”** means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

3. SCOPE AND APPLICABILITY

The aim of risk management is to maximize opportunities in all activities and to minimize adversity. This policy applies to all activities and processes associated with the normal operations of Pearl Global Industries Limited. Effective risk management allows the Company to:

- embed the management of risk as an integral part of its business processes;
- establish an effective system of risk identification, analysis, evaluation and treatment within all areas and all levels;
- Make informed decisions
- avoid exposure to significant reputational or financial loss;
- Assess the benefits and costs of implementation of available options and controls to manage risk.
- Have increased confidence in achieving its goals
- Strengthen corporate governance procedures

Thus, it is the responsibility of all Board members, Senior Management and employees to identify, analyze, evaluate, respond, monitor and communicate risks associated with any activity, function or process within their relevant scope of responsibility and authority.

4. Risk Strategy

Risk is an integral and unavoidable component of business and the Company is committed to managing the risk in a proactive and effective manner. The Company is mainly engaged in the business of manufacturing and exporting of readymade garments in India and abroad.

Types of Risks:

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 foreign exchange risk, operational risk, quality risk, competition risk, cost risk, financial risk and legal/regulatory risk etc.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the Company would need to evaluate these risks to see which of them will have critical impact on the Company and which of them are not significant enough to deserve further attention.

5. RISK MANAGEMENT FRAMEWORK

The Company has clearly defined the responsibility and authority of the Company's Board of Directors to oversee and manage the risk management program, while conferring responsibility and authority on the Company's senior management to develop and maintain the risk management program considering the day-to-day needs of the Company. Regular communication and review of risk management practice provides the Company with important checks and balances to ensure the efficacy of its risk management program.

The key elements of the Company's risk management program are set out below.

Risk Identification:

The risk management process starts with the systematic identification of risks. Only if such risks are recognized in a timely manner can they be successfully managed. A prerequisite for efficient risk identification and subsequent risk treatment is a consistent and comprehensive understanding of business objectives and strategies. There could be other risks which will emanate because of changes in the internal or external environment within which business operates. These risks are to be identified by the Risk Owners during the normal course of business.

Risk Assessment:

This step involves understanding and listing of the potential threats that may affect the realization of the key success parameters, including the objectives of the organization or a project. Risk assessment involves identification and prioritization of risks. Likelihood and Impact of risk events have to be assessed for the purpose of analyzing the criticality. The potential impact may include:

- Financial loss;
- Loss of talent;
- Non-compliance to regulations and applicable laws leading to fines, penalties and even closure of the Company under Insolvency and Bankruptcy Code 2016 etc.
- Health, Safety, loss of life, damage to property and Environment related incidences;
- Business interruptions / closure;
- Loss of values, ethics and reputation.

The likelihood of occurrence of risk is rated based on number of past incidences in the industry, previous year audit observations, Government Policies, information from competition, market data, future trends or research reports.

Risk may be evaluated based on whether they are internal or external, controllable or non-controllable, inherent and residual.

Risk Prioritization

Risk prioritization is the process of identifying the key risks. Risks are determined as priority depending on their analysis which is based on significance of their impact on the realization of the objectives of the organization/event/activity/scheme.

Risk Mitigation:

The Risk can be mitigated or controlled 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
- Shared, by following a middle path between retaining and transferring risk

6. RESPONSIBILITY OF RISK MANAGEMENT

Management:

Management should perform and monitor day-to-day risk management activity. The Management is responsible for periodically reviewing the group's risk profile, fostering a risk-aware culture and reporting to the Audit Committee/Risk Management Committee on the effectiveness of the risk management framework and of the company's management of its material business risks. More specifically, Management is responsible for:

- Promoting Risk Policy Framework;
- The design and implementation of cost effective risk management and internal control systems in accordance with the guidelines to manage risk, encourage efficiencies and take advantage of opportunities;
- Continuous monitoring and reporting of the effectiveness of risk controls;
- Monitoring compliance, investigating breaches, recommending and/or approving improvement opportunities.
- Create a positive control environment by setting a positive ethical tone and removing temptations for unethical behavior
- Preparing a written code of conduct for employees
- Ensure that personnel have/ maintain a level of competence to perform their duties.
- Clearly define key areas of authority and responsibility
- Establish appropriate lines of reporting
- Establish management control policies and procedures based on analysis of risk
- Use training, management communications to reinforce the importance of control management.

Employees:

Employees are accountable for actively applying the principles of risk management within their areas of responsibility and fostering a risk-aware culture. More specifically, Employees are responsible for:

- Report to their immediate leader or supervisor, any real or perceived risks that become apparent and may significantly affect the Company's: Commercial viability; Profitability; Assets;

Business continuity; Customers; Regulatory and/or legal obligations; Reputation; and/or People and/ or their safety.

- Report to their immediate leader or supervisor, any real or perceived risks that company's operations may significantly affect the broader: Environment; and/or Community.
- Look for opportunities to improve operational efficiencies and optimize outcomes.

Risk Management Committee:

- Maintain oversight and monitor the effectiveness of internal controls and risk management activities.
- Risk Management Committee assists the Company in overseeing the company's risk profile and is responsible for overseeing the effectiveness of management's actions in the identification, assessment, management, and reporting of material business risks.
- Ensure independence of Internal Audit from management of subsidiaries & Units.
- Any deviations will be reported by Risk Management Committee to Audit Committee.

Responsibility of Internal Auditors:

Internal Audit provides independent assurance on the effectiveness of internal controls and the Risk Management Framework. It is responsible for:

- Developing and implementing an annual audit plan having regard to material risks
- Reviewing the effectiveness of company's risk management policy and risk management processes; and Notifying Group Risk of new and emerging risks identified in the course of implementing the audit plan and, where necessary, modifying the audit plan to take account of the impact of new risks. Ensure professional competence of audit staff.
- Advise management on areas of risk
- Establish auditing strategic plans and goals
- Perform audit of operations
- Evaluate adequacy and effectiveness of Internal Control mechanism
- Recommend ways to improve operations and strengthen controls
- Follow up to ensure recommendations are fully and effectively implemented.

Common Internal Control practices:

- Performance indicators are developed & monitored.
- Secure and safeguard all vulnerable assets.
- An organization's workforce is effectively trained and managed so as to achieve results
- Key duties and responsibilities are divided among people to reduce the risk of error & fraud.
- Information processing is controlled E.g. Audit checks of data entry.
- Access to resources and records is limited to authorized individuals. Accountability for their custody and use is assigned and maintained.
- Internal control and all transactions and other significant events are clearly documented and the documentation is readily available for examination.
- Transactions & other significant events are authorized and executed only by authorized person.
- Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

7. RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES ADOPTED

The Company has divided the risks into three broad categories: -

(I) BUSINESS OPERATIONAL RISKS

1) Business dynamics: These include:-

- Organisation and management risks
- Production, process and productivity risks
- Business interruption risks consisting internal and external factors

Risk mitigation measures:

- The Company functions under a well defined organization structure with focus on role clarity.
- Proper systems are in place in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes.
- Selection of technology, standardization of processes, clears SOPs, training, upkeep of assets etc.
- Proper training and development, incentives and reward system for employees at all levels.

2) Market Risks / Industry Risks: These include:

- Raw material availability and movement of rates
- Demand and Supply Risks
- Quantities, Qualities, Suppliers and lead time
- Competition
- Increase in commercial costs

Risk Mitigation Measures:

- Tracking micro and macroeconomic level data, market trends and forecasts by expert agencies, internal review by team of experts.
- Developing a good understanding and tracking of movement of rates of raw material at macro level, keeping a track on global and domestic economy,
- Climatic conditions, geo-political factors, global demand and supply, trade policies etc.
- Alternative sources are developed for uninterrupted supply of raw materials.
- Demand and supply are external factors on which company has no control. However based on experience gained from the past and by following the market dynamics as they evolve, movement by competition, economic policies and growth patterns of different segments, the Company is able to estimate the demand during a particular period and accordingly supply is planned and adjusted.
- 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 debottlenecking procedures, enhancement of capacity utilisation etc.
- Proper inventory control systems have been put in place.
- The Company has been increasing operational efficiency and continues to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.
- Effective steps are being taken to reduce cost of production on a continuing basis through focus on cost and realization, budgets, budgetary controls, management control system, close watch on market dynamics etc.
- On competition side, keeping a close watch on competitor's strengths and weaknesses, competition dynamics etc.

3) Political Environment risks:

- Any adverse change in the political environment of the country, government policies on textile industry etc can have an impact in growth strategies of the company.

Risk Mitigation Measures:

- Reviewing and monitoring the country's textile related industrial, labour and other related policies and involvement in representative industry-bodies.

4) Disaster Risks: Natural risks like Fire, Earthquakes, etc.**Risk Mitigation Measures:**

- The properties of the company are insured against natural risks, like fire, earthquakes, etc. with periodical review of adequacy, rates and risks covered.
- Fire extinguishers have been placed at fire sensitive locations.
- First aid training is given to watch and ward staff and safety personnel.
- Well designed hydrant systems and training of personnel for the same.

(II) FINANCIAL RISKS**1) Liquidity Risks:** These include:

- Financial solvency and liquidity risks
- Cash management risks

Risk Mitigation Measures:

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.
- Daily and monthly cash flows are prepared and monitored at senior levels to access the fund requirements and ensure utilization of funds in an effective manner.
- Cash management services are availed from Bank to ensure efficient collection and utilization of funds.

2) Credit Risks: These include risks in settlement of dues by the customers.**Risk Mitigation Measures:**

- Systems put in place for assessment of creditworthiness of the customers.
- Provisions for bad and doubtful debts are appropriately made in books of accounts.
- To take insurance.
- Appropriate recovery management and follow up.

3) Foreign Exchange Risks:

- We face foreign currency exposure for our sales in overseas and 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.

Risk Mitigation Measures:

- 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.
- 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.

- Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with a hedge cover as per policy.
- Our risk management policy on foreign exchange has been approved by the Board of Directors for Forex dealings, implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

(III) OTHER RISKS

1) Human Resource Risks:

- Labour Turnover Risks, involving replacement risks, training risks, skill risks, etc.
- Unrest Risks due to Strikes and Lockouts.

Risk Mitigation Measures:

- Ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.
- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal systems with the participation of the employee and consistent with job content, peer comparison and individual performance for revision of compensation on a periodical basis has been evolved and followed regularly.
- Inculcate in employees a sense of belonging and commitment and also effectively train them in spheres other than their own specialization.
- Activities relating to the Welfare of employees are undertaken.
- Employees are encouraged to give suggestions and discuss any problems with their Superiors.
- Efforts are made to keep cordial relations with employees at all level.

- 2) 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.

Risk Mitigation Measures:

- Installation of Effluent Treatment Plants and sewage treatment plants at its manufacturing units.
- Extensive plantation of trees around manufacturing plants is undertaken for green belt development.
- Focus on efficient operations of environment protection system and equipments.

- 3) Legal Risks:** Legal risk is the risk in which the Company is exposed to legal action. 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.

Risk Mitigation Measures:

- 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 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, get the quarterly compliance reports from various unit heads and being placed before the Board at every quarterly Board meeting of the Company.

8. AMENDMENT

Any change in the Policy shall be approved by the Board of Directors. The Board of Directors shall have the right to withdraw and / or amend any part of this Policy or the entire Policy, at any time, as it deems fit, or from time to time. Any subsequent amendment / modification in the Listing Regulations and / or any other laws in this regard shall automatically apply to this Policy.

9. DISCLAIMER

The Management cautions 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.
