

**GP Petroleums Limited**  
**RISK MANAGEMENT POLICY**

**A. Introduction**

Risk Management is a key aspect of the “Corporate Governance Principles and Code of Conduct” which aims to improve the governance practices across the Company’s activities. Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities

The Board of Directors of GP Petroleums Limited (‘GPPL’) has adopted the following policy and procedures with regard to risk management as defined below. The Board may review and amend this policy from time to time.

**B. Definitions**

- **"Audit Committee"** means Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013 and the Listing agreement.
- **"Board of Directors"** or **"Board"** in relation to a Company, means the collective body of Directors of the Company. [Section 2(10) of the Companies Act, 2013]
- **"Policy"** means the Risk Management Policy.
- **"Risk Management"** is the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects within the corporate environment. It is the systematic way of protecting business resources and income against losses so that the objectives of the Group can be achieved without interruption.

**C. Purpose**

Effective risk management is central to the continued growth and success of GPPL. This Risk Management Policy ensures that:

- Appropriate systems are in place to identify, to the extent reasonably practicable, each material risk that the Company faces in conducting its business;
- The potential consequences and likelihood of each identified risk are understood and appropriate limits are set to assist in managing exposure to risks;
- Responsibility is delegated to manage each identified risk and mitigate that risk where ever possible;
- Assurance is provided as to the effectiveness of the risk management system and risk controls; and
- The risk management system is regularly reviewed to determine whether adequate control measures are in place.

#### **D. CONSTITUTION OF RISK MANAGEMENT COMMITTEE**

Risk Management Committee shall be constituted by the Board; consisting of such number of directors (executive or non-executive) and the officers, as the Board thinks fit.

The Board shall define the Responsibilities & Duties of the Risk Management Committee & may delegate monitoring & reviewing of the risk management plan to the Committee & such other functions as it may deem fit.

#### **E. RESPONSIBILITIES OF RISK MANAGEMENT COMMITTEE**

I. The responsibilities of the Risk Management Committee are:

Recommend to the Board and then formally announce, implement and maintain a sound system of risk oversight, management and internal control which:

- identifies, assesses, manages and monitors risk; and
- allows investors and other stakeholders to be informed of material changes to the Company's risk profile.

- II. Risk Management Committee will meet on Quarterly basis to review & monitor the Risk Management Practices with reference to the Risk Management Grid (Annexure I).

#### **F. Risk & Risk Controls**

Risks specific to the Company are listed below. The current mitigation measures are enclosed in the Risk Management Grid (Annexure I):

- 1) **Raw Material Price Volatility Risk:** The Company, based on the availability and the prices, procures Base Oils from global as well as local sources. The Volatility in the Price is always a major Risk, as in case the material is procured at higher price and prices fall suddenly thereafter, impacts the business and operations.

#### **Current Risk mitigation measures:**

- Management takes the synergic advantage of Gulf Petrochem core purchase team through advice on market trends, Negotiation of the Deals on Behalf of GPPL at better terms, Suggesting the appropriate time, Quantum of Base Oils to be procured and so on.
- If feasible, the Management may decide to hedge the risk of price volatility in Base Oil prices by entering into appropriate hedging transactions using derivative instruments such as swaps / Forwards / Futures. Such derivative transactions shall always be in compliance with existing regulations of the Reserve Bank of India or of any other regulatory authority governing such hedging activity in India.
- The ICIS report on Base Oil Prices, published fortnightly also gives the understanding of overall movement in prices across different regions. Additionally local PSU's price data, also provides the comparatives for understanding the trend and taking timely decision.

- After considering all above, for each Base Oil purchase, separate deal sheet is made, reviewed by relevant departments, recommended and finally executed for procurement.
- Management Plans and keeps optimum levels of stocks to take care of the price as well as requirements.

2) **Currency Volatility Risk:** As company is involved in procuring major portion of its Base Oils through Imports, which is funded through overseas credit arrangements; Currency volatility plays major role in product pricing and profitability. While our functional currency is the Indian rupee, we transact a significant portion of our business in USD and accordingly face foreign currency exposure from our purchases from overseas suppliers and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

**Current Risk mitigation measures:**

- 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. 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.
- Under the **supervision** of Gulf Petrochem's Management, company has set up forex committee in India and UAE to ensure exposure of each division is adequately hedged as per its business model.

- Committee keeps daily track of exposure and presents exposure status to Management every Tuesday to review actions taken and discusses further necessary steps required to manage exposure.
- Company has also appointed external advisory company which guides on future currency trends and appropriate hedge strategy required as per changes in market trends.

3) **Business Operations Risks:** Operational risk is the "**risk of loss resulting from inadequate or failed internal processes, people and systems or from external events**". 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 risks
- Fraud risk
- Government Policies

**Current Risk mitigation measures:**

- The Company functions under a well-defined organization structure and Internal Controls.
- Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- MIS system covering the entire operations and review is in place.
- Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
- Sufficient stock of raw materials is kept to ensure continuous production.
- Effective steps are being taken to reduce cost of production.
- Back-up Captive power generating capacity for uninterrupted production.

- The company has appointed External Audit Agency to conduct the Internal Audit for a) evaluating controls and advising managers at all levels, b) Evaluating risks, c) Analyzing operations and confirming information, d) Reviewing compliance and suggest for Improvement Areas.

4) **Commercial Risk / Credit Risk:** Commercial risks refer to potential losses arising from the trading partners or the market. Commercial Risk are the Financial risk assumed by a seller when extending credit.

**Current Risk mitigation measures:**

- The company deals both in B2B and B2C sector. In B2B, the company has long relations with its customers for decades.
- All Customer have been assigned Credit Terms, both in terms of Credit Amount as well as Credit No of Days. For any new Customer, Customer Credibility is evaluated. In Case of appointing distributors, blank cheques, as security are also taken to cover any eventuality.
- The company has established process of Customers Sales Order (CSO) approval at Head Office, before execution. Until and unless the sales order is approved, Sales can't be made in ERP system.
- Only on specific cases with the approval of HOD, and after prior commitment, any deviation in Credit Terms is allowed.
- The company has dedicated position of Credit Control (Finance Departments), to closely review the operations of each customers. Regular intimation form DGM / Regional Accountant, for follow-ups on Customers crossing credit terms are circulated.
- Management on monthly basis reviews the Customers Business and outstanding with HOD's
- All possible efforts including legal recourse are applied to collect overdue outstanding's.

- Monthly Customer-wise outstanding statements is provided to Sales Team for better focus on collections
- Customers are also advised on monthly basis their current outstanding, and bills becoming due in the month.

5) **Market Risks / Industry Risks / Business Dynamic Risks:** These Include

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time risks
- Raw material rates
- Interruption in the supply of Raw material
- Competitors Strategy, Alternate products

**Current Risk mitigation measures:**

- Raw materials are procured from different sources at competitive prices.
- Alternative sources are developed for uninterrupted supply of raw materials
- Proper inventory control systems have been put in place.
- Based on contemporary business trends, market updates and past experience; the Company is able to predict the demand during a particular period and accordingly supply is planned and adjusted.
- The Company tries to reduce the gap between demand and supply.

6) **Technological Obsolescence Risk:** Gulf Petrochem group 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.

**Current Risk mitigation measures:**

- The company has its own R&D Facility, which keeps on developing new products based on marked requirements / competitor's portfolio.
- The company keeps updating its manufacturing facility as per changing market trends and updated requirements.
- The company is in process of expanding its production capacity by putting up new state of art manufacturing unit at Pipava.
- The company's policies include a favorable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements

7) **Liquidity Risks:** Liquidity risks includes :

- Financial Solvency and liquidity risks
- Borrowing limits
- Cash management risks

**Current Risk mitigation measures:**

- Proper financial planning is put in place.
- Annual and Quarterly Budgets and Variance Analyses are prepared to have better financial planning.
- Daily, monthly cash flows are prepared.
- Cash management services are availed from Bank to avoid any loss of interest on collections.
- Exposure to Foreign Exchange transactions are supported by LCs and Bank Guarantee and suitable hedging policy.

8) **Logistic Risks:** It includes dependency of company on outside transport services for movement of its supplies and finished goods.



**Current Risk mitigation measures:**

- Sourcing of committed and dedicated service providers.
- 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 are explored.
- Transport Agreements are entered with the Transporters on Yearly basis, with negotiated rates and rates escalations based on formula of quarterly Diesel prices.
- Comprehensive transit risk insurance coverage for all incoming and outgoing goods across the organization.

9) **Human Resource Risks** : Human Resource risks includes

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

**Current Risk mitigation measures:**

- Strong HR Department to maintain excellent and cordial relations at all levels of employment.
- Company has proper recruitment policy for recruitment of personnel at various level in the organization.
- Proper appraisal system to give yearly increment is in place.
- 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.
- Retention of Critical Employees / Planning for Replacement are in place.

10) **Disaster Risks:** Disaster Risks are the risks caused from Natural risks like fire, Floods, Earthquakes, etc.

**Current Risk mitigation measures:**

- The property of the company is insured against natural risks, like fire, flood, earthquakes, etc.
- Fire Hydrants have been installed at all manufacturing locations. Other apparatus like extinguishers filled with chemical, Foam etc. have been placed at fire sensitive locations and regular fire safety drills are carried out.
- 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.
- Engaging professional Risks Assessing Advisors who conduct periodical audit / review and suggest risks improvement measures from time to time.
- The company has obtained appropriate Insurance coverages like Loss of Profit Policy to cover loss of Gross Profit on account of interruption of business, consequent upon Material Damage to property due to Fire or any other insured peril under the Standard Fire and Special Perils Policy. List of all policies undertaken / in-process of taking cover are enclosed as Annexure II.

11) **System Risks:** System risks are the risk of failure of the Data Processing & Management. The risk relates to:

- System capability
- System reliability
- Data integrity risks
- Coordinating and interfacing risks
- Risk of Obsolescence
- Risk of loss of data

**Current Risk mitigation measures:**

- EDP department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- Server Backups are taken on daily basis and are stored at separate location.
- 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.
- Business continuity after a major disruption and adoption of a Disaster Recovery Plan

**12) Legal Risks:**

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.

These risks relate to the following:

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks
- Patent, Design and Copyright Infringement Risks
- Change in Government Policies affecting business

**Current Risk mitigation Measures:**

- Gulf Petrochem has centralized team of professionals who focus on ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved, to meet the general

and specific requirements so that they can ensure adherence to all contractual obligations and 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. The suggestions and recommendations from professional agencies and industrial bodies, chambers of commerce etc., are carefully analyzed and acted upon wherever relevant.
- The Company has established a compliance management system in the organization and Secretary of the Company ensures the submission of the quarterly compliance reports by functional heads for placing the same before the Board supported by periodical Secretarial Audit Reports by Practicing Company Secretaries.

### **13) Health Safety & Environment Risk**

The business is always prone to any kind of accident. HSE management involves managing, controlling and handling all aspects of health, safety and the environment.

#### **Current Risk mitigation Measures:**

- Safety Manual has been made, which details safety measures for each application and processes
- Periodically trainings are given to employees through mock drills etc, for Onsite emergency plans, Emergency Fighting Plans, Fire Fighting Facilities available and MSDS
- Risk Register is maintained by the company which contains database of risks that face an organization at any one time.
- Regular Review of Accidents, Misses, Near Misses and Risk Management Policies are done and discussed with the BOD.

## **G. Process Framework for Risk Identification & Control:**

Risk Identification & communication is an integral part of the risk management process. It's an interactive process for exchanging information and opinions with risk managers. Timely identification and communication of Risks are vital for controlling the risk and deploy mitigation measures. To achieve the expected outcome from Risk Management, involvement-of, risk identification-by and communication-from; all employees are very essential.

Risk management Policy and Guidelines will be shared with all employees. Risk registers needs to be maintained at all identified locations. Any and all risk incidences needs to be entered in Risk Register and needs to be promptly communicated to Chief Risk Officer (currently CFO).

Consolidated Risk Incidences will be provided to Risk Management Committee for their review.

## **H. Accountabilities**

The Board of Directors has delegated the task of overseeing the deployment of Risk Management Framework to the Risk Management Committee.

On an annual basis, a formal report on Risk Management shall be submitted to the Board of Directors for their review.

## **I. Disclosure in the Board's Report**

The Board of Directors shall 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.

## **J. Intended Benefits**

- Spread Risk Management Knowledge and Awareness, Risk culture across SBU's
- Help senior management, Board, BU's, executives to focus on main risk and mitigation
- Provides systematic review, quarterly reports to monitor progress.
- Can be integrated into decision making process (Capital Allocation, Portfolio Building, Performance Management), in order to increase shareholder values

ANNEXURE I - Risk Management Grid

S N	Risk	Current Mitigation Measures	Likelihood			Impact		
			Low	Med	High	Minor	Modera	Significant
1	Raw Material Price Volatility Risk	a. Advice From Gulf Petrochem team on Base Oil Prices and Trends b. Price advantage on a/c of Bulk negotiation c. Various Price Index / Movement report (e.g. ICIS) are Tracked d. Quotation of various vendors are compared and Deal Sheet is prepared before finalizing any order.			High		Modera	
2	Currency Volatility Risk	a. Forex Committee is setup to monitor Currency movements b. Weekly Review on open Position and Hedging Decisions are made c. Opinion from external Forex Advising Agency are obtained		Med				Significant
3	Business Operations Risks - Organization and management risks - Production, process and productivity risks - Business interruption risks - Profitability risks - Fraud - Government Policies	a. Well Defined Organization Structure is existing b. Flow of information is channeled properly c. Second Level of position in each department are created for un-interrupted flow of work. d. MIS system covering the entire operations and review is in place e. Appropriate stock levels are kept to ensure continuous Production f. Backup-Power Generator g. Appointed External Audit Agency to conduct the Internal Audit	Low				Modera	
4	Commercial Risk / Credit Risk - Risk of non collectability of supplies given on Credit	a. Credit Worthiness of Customer are checked before supplying. b. Credit Terms (Period & Amount) are fixed and adhered c. All Customers Orders are thoroughly review and approved at HO d. Deviations allowed only after special approval from HOD/Mgmt. e. Monthly review on customer outstanding f. All possible efforts including legal recourse are applied to collect overdue outstanding's.		Med		Minor		
5	Market Risks / Industry Risks / Business Dynamic Risks - Demand & Supply Risk - Quantities, Qualities, Suppliers, lead time risks - Interruption in the supply of Raw material. - Competitors Strategy, Alternate products	a. Multiple sources of RM Procurement b. Alternative sources are developed for uninterrupted supply c. Company plans its production and sales from the experience gained in the past and existing market trends d. Proper inventory control systems have been put in place f. The Company tries to reduce the gap between demand and supply.		Med			Modera	
6	Technological Obsolescence Risk	a. The company has its own R&D Facility, which keeps on developing new products based on marked requirements / competitor's portfolio. b. Manufacturing Facility are kept updated in accordance to market c. The company is in process of expanding its production capacity by putting up new state of art manufacturing unit at Pipava. d. The company's policies include a favorable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements	Low				Modera	
7	Liquidity Risks - Financial Solvency Risk - Cash Management Risk - Borrowing Limits	a. Proper system of Financial Planning and monthly review. b. Daily, Monthly Cash Flows are Tracked c. Cash management services are availed from Bank to avoid any loss of interest on collections d. Sufficient Bank Arrangements are in place for Working Capital requirement e. Exposure to Foreign Exchange transactions are supported by LCs and suitable hedging policy.	Low				Modera	
8	Logistic Risks - Risk of interruption in supplies for dependency on outside transport arrangements	a. Sourcing of committed and dedicated service providers b. Exploring possibility of an in-house logistic mechanism if the situation demands. c. Possibilities to optimize the operations are explored. d. Comprehensive transit risk insurance coverage for all incoming and outgoing goods across the organization. e. Yearly contracts with Transporters are in place	Low				Modera	
9	Human Resource Risks - Employee Turnover Risk - Unrest, Strike, Lock-out Risk	a. Strong HR Department to maintain excellent and cordial relations at all levels of employment b. Proper recruitment policy, for personnel at various level c. Proper appraisal system to give yearly increment is in place d. Employees are trained at regular intervals to upgrade their skills e. Labor problems are obviated by negotiations and conciliation. f. Activities relating to the Welfare of employees are undertaken	Low				Modera	

S N	Risk	Current Mitigation Measures	Likelihood			Impact		
			Low	Med	High	Minor	Modera	Significant
10	Disaster Risks - Fire, Floods, Earthquakes, etc	a. The property of the company is insured against natural risks, like fire, flood, earthquakes, etc. b. Fire Hydrants have been installed at all manufacturing locations c. First aid training is given to watch and ward staff and safety personnel d. Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen e. Engaging professional Risks Assessing Advisors who conduct periodical audit / review and suggest risks improvement measures from time to time. f. The company has obtained appropriate Insurance coverages like Loss of Profit Policy to covers loss of Gross Profit on account of interruption of business, consequent upon Material Damage to property due to Fire or any other insured peril under the Standard Fire and Special Perils Policy. List of all policies undertaken / in-process of taking cover are enclosed as Annexure II.	Low	Med	High	Minor	Modera	Significant
11	System Risks - System Integrity / System Capability - Coordinating and interfacing risks - Risk of Obsolescence - Risk of loss of data	a. EDP department maintains repairs and upgrades the systems on continuous basis b. Server Backups are taken on daily basis and are stored at separate location c. Password protection is provided at different levels to ensure data integrity d. Licensed software is being used in the systems. e. Company ensures "Data Security", by having access control f. Business continuity is ensured after a major disruption and adoption of a Disaster Recovery Plan	Low	Med	High	Minor	Modera	Significant
12	Legal Risks - Contract Risks - Contractual Liability - Frauds - Judicial Risks - Insurance Risks - Patent, Design and Copyright - Infringement Risks - Change in Government Policies affecting business	a. Centralized team of professionals to ensure adherence to all contractual obligations and commitments b. The Company has established a compliance management system Secretary of the Company ensures the submission of quarterly compliance reports by functional heads for placing the same before the Board supported by periodical Secretarial Audit Reports by Practicing Company Secretaries.	Low	Med	High	Minor	Modera	Significant
13	Health, Safety & Environment Risk	a. Company has made well defined safety manual, which details safety measures for each application and processes b. Periodically mock training are given to employees for Onsite emergency plans, Emergency Fighting Plans, Fire Fighting Facilities available and MSDS c. Risk Register is maintained by the company which contains database of risks that face an organization at any onetime. d. Regular Review of Policies are done and discussed with the BOD	Low	Med	High	Minor	Modera	Significant



**ANNEXURE II - Insurances**

<b>S.No.</b>	<b>Type of Policy Cover</b>
1	Stock Policy
2	Electronic Equipment Policy
3	Furniture Fix. & Fiting Policy
4	Plant, Machinery & Building Policy
5	Transit Insurance Policy
6	Duty Policy for Tanks
7	Group Personal Accident
8	Public Liability Insurance Policy
9	Commercial Crime Policy
10	Motor Vehicle Policy
11	Directors & Officers Policy
12	Loss of profit Policy
13	Gratuity Insurance
14	Office package Policy