

Titan Company Ltd

Risk Management Policy

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1. Document History:

Authorized By:

Board Risk Management Committee	Date:	Signature:

Version History

Version	Date	Prepared by	Changes and Reasons for change
1.0	20 th January 2016		Initial version
2.0	4 th August 2021		Regulatory Changes

2. Key Concepts :

I. Risk:

- Risk is the potential for failure or loss of value or the missed opportunity for value creation / strategic competitive advantage resulting from either a certain action or a certain inaction
- Controlling risk is essential in any business by having processes to ensure safeguarding of assets and compliance with appropriate regulatory frameworks.
- However, risks may also have to be taken consciously to explore untapped business opportunities in line with the corporate strategy to optimize maximum potential stakeholder's value and to improve their confidence.

II. Risk Management Framework (RMF):

- It is the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated and monitored.
- It includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the Risk appetite.
- The identification and management of risk is integrated in the day to day management of the business
- Risks are identified, assessed and prioritized in the context of the Company's appetite for risk and their potential impact on the achievement of objectives and need to be continuously monitored and managed to an acceptable level
- It considers material risks to the institution, as well as to the institution's reputation vis-à-vis all stakeholders including employees, shareholders and customers.
- Risk management framework will be aligned to the Company's long term strategic objectives and shall be an integral part of all business processes.

3. Classification of Risks:

A. Financial / Operational / Preventable / Compliance risks –

- These are internal risks, arising from within the organization that are controllable and need to be eliminated or avoided.
- Examples –
 - Risks from employees' and managers' unauthorized, illegal, unethical, incorrect, or inappropriate actions
 - Retention of talent & succession planning
 - Control failures / gaps in IT / Manual process(s)
 - Security of assets – tangible and intangible
 - Safety of Human Resources
 - Compliance with labour / tax / corporate governance laws
 - Environmental, Social & Governance (ESG) related risk

B. External risks –

- External risks come up due to economic events that arise from outside of an institution's control.
- It arises from the external events that cannot be controlled by any an institution, cannot be forecasted with reliability, are normally beyond its control, and it is therefore difficult to reduce the associated risks.
- Examples –
 - Economic risk includes changes in market / national economic conditions viz economic recession, Gold price changes, significant change in global oil prices etc
 - Political risk comprises of changes in the political environment that could hamper business environment.
 - Regulatory Risk includes changes in government policies on legal compliances
 - Natural risk factors include natural disasters – earthquake, flood etc - that affect normal business operations.
 - Employee strike or labour unrest
 - cyber security risks

C. Disruptive risks:

These are the anticipated or unanticipated events which may result in disruption of the operations of firm or existence of its current business model.

- Innovations to business models that disrupt the existing paradigm – eg. business models in the e-commerce space that threaten brick and mortar enterprises, technological disruptions (eg. quartz to mechanical, smart to quartz), Uber / Ola to taxi companies, etc.
- Demand shift due to technology / cross category threats.

D. Strategic Risks:

Risks taken on consciously linked to strategic choices to earn a higher return.

- New geography, category, manufacturing plants, new channels, for example business expansion plans in USA, Europe etc.

The Risk Management Committee will be responsible for review and action plan to mitigate these Internal, External and the Strategic/Disruptive risks periodically and report to the Board of Directors accordingly. The Risk Management Committee will discuss calculated risks required to be taken to augment strategic initiatives in a bid to achieve the long term goals of the company. In a typical instance, approach to setting and executing strategy might look at augmenting sales growth, exploring uncharted domestic / international markets, tapping organic / inorganic growth opportunities, elevating brand value or adopting evolving technological platforms for better service delivery.

4. Risk Appetite:

The aggregate level and types of risk the Company is willing to assume within its risk capacity to achieve its strategic objectives and business plan. The currently identified risks, risk classification and the mitigation plans, as aligned to the risk appetite, are defined in the Risk Register.

Key Risk Element - Operating/Preventive:

Impact (Company Level)	Low			Medium			High		
	1 CR.			Greater than 1 and up to 10 CR.			Greater than 10 CR.		
Likelihood	Rare	Likely	High Possibility	Rare	Likely	High Possibility	Rare	Likely	High Possibility
Risk Appetite	Accept	Reduce	Reduction	Accept	Reduce	Avoid	Accept	Reduction / Transfer	Transfer

Key Risk Element - External:

Impact (Company Level)	Low			Medium			High		
	5 CR.			Greater than 5 and upto 20 CR.			Greater than 20 CR.		
Likelihood	Rare	Likely	High Possibility	Rare	Likely	High Possibility	Rare	Likely	High Possibility
Risk Appetite	Accept	Reduce	Avoid / Transfer	Accept	Reduce / Transfer	Avoid / Transfer	Accept	Reduction / Transfer	Avoid / Transfer

Key Risk Element – Strategic and Disruptive:

Impact (Company Level)	Low			Medium			High		
	5 CR.			Greater than 5 and upto 20 CR.			Greater than 20 CR.		
Likelihood	Rare	Likely	High Possibility	Rare	Likely	High Possibility	Rare	Likely	High Possibility
Risk Appetite	Accept	Accept	Reduce	Accept	Accept	Reduce /Transfer/ Share	Accept	Reduce / Transfer/Share	Avoid / Transfer/ Share

5. Risk Governance:

- An effective RMF should provide a common framework and comparable measures across the company for the Board and the senior management to communicate, understand, and assess the types and level of risk that they are willing to accept.
- It explicitly defines the boundaries within which management is expected to operate when pursuing the company's business strategy.
- Implementation of a RMF is most effective when it is incorporated into the decision-making process and communicated and promoted throughout the organization, starting from the top.
- It, however, needs to be ensured that the 'top down' risk appetite is consistent with the 'bottom up' perspective through for example, employee surveys, independent reviews, and internal reporting.

6. Objectives: Risk Management Policy

- Develop both proactive and reactive mechanism for risk management
- Develop a risk culture that encourages all employees to identify risks, associated opportunities/gains and respond to them with effective actions
- Identify and manage existing/new risks in a planned and coordinated manner
- Develop an incident response management framework to manage the risks that may materialize.

7. Regulatory Framework:

- Section 134 of the Companies Act, 2013 provides that the Board of Directors' report must include a statement indicating development and implementation of a Risk Management Policy for the Company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.
- Further, Section 177 of the Companies Act, 2013 provides that the Audit Committee shall act in accordance with the terms of reference specified in writing by the Board, which shall inter alia, include evaluation of risk management systems.
- Regulation 21 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (SEBI LODR) read with Part D-Schedule II of SEBI LODR defines roles and responsibilities of the Risk Management Committee along with other requirements in connection with the constitution, quorums etc., of Risk Management Committee.

8. Components of Risk Management Framework:

I. Risk Identification:

A. Process: An effective risk identification process would typically:

- Identify the significant risks to the achievement of its business objectives.
- Identify all types of risks, associated major components and controls currently in place, from all sources, across the entire scope of the company's activities.
- Identify internal and external risks specifically faced including financial, operational, sectoral, sustainability including ESG related risks, information, cyber security risks or any other risks as may be determined by the Risk Management Committee (RMC).
- Identify risks around opportunities as well as threats, to increase the company's chance of maximizing the benefit of those opportunities when they arise.
- Ensure that the organization is aware of its major risks at any point in time, and include elements to update the organization's understanding of risk on an ongoing basis, such as key indicators.
- Ensure that the Board of Directors is informed about the nature

and content of RMC discussions, recommendations and actions to be taken by the Company.

- Be systematic, disciplined and documented, methodical and well-organized and in a format that is capable of being communicated and understood by all.
- Be focusing on the root causes and influencing factors of risk, both internal and external, as well as its effects and outcomes: financial, reputational or other.

B. Risk Register- Salient Features:

- Collates risk information to enable effective sharing and communication of that information.
- Focuses attention on the key risks and therefore drives action.
- Is linked to the capital requirements of the organization.
- Assists in developing a portfolio view of risk.
- Forms the core of an organization's risk knowledge database and is the basis for risk analysis and reporting.
- Facilitates monitoring and review.
- Evidences a systematic and comprehensive approach to risk identification.
 - Is subject to regular review and update.

C. Documenting Risk Register:

A risk register typically captures:

- A description of the risk - including causes and influencing factors, both internal and external.
- The classification of risk category
- Probability of occurrence
- Risk ownership
-
- Risk Priority classification
- Mitigation plan

II. Risk Assessment:

An effective risk assessment process would entail the following:

- Assess the impact and probability of risks, using metrics or scales that are suitable and appropriate to the business, commonly understood across the organization, and in line with its risk policy.

- Use an appropriate assessment method which might be qualitative or quantitative, or a combination of both. The appropriate method will depend on a number of factors, including the nature of the risk and the company's risk policy. Whatever methods are chosen, the organization should be able to demonstrate the effectiveness and appropriateness of its assessment criteria and techniques.

III. Management Risk Management Committee (MRMC)

MRMC which comprise of Senior Management Executives from various business verticals and key functions shall formulate Risk Registers, review the risks of the Company, from time to time and provide update to the RMC and subsequently to the Board, including the mitigation plan for each of the risks.

IV. Risk Review:

- Risks identified shall be reviewed regularly to ensure it stays relevant and appropriate to the nature and level of risk within the organization.
- The frequency of review should reflect the nature of the risk and its intensity but all risks should typically be reviewed quarterly by management.

V. Risk Mitigation:

- After the risk has been identified and evaluated, the respective divisional heads need to develop a risk mitigation plan, which is a plan to reduce the impact of an unexpected event. Mitigation of risks may take the following ways:

○ Risk avoidance	○ Risk sharing
○ Risk reduction	○ Risk transfer

- Each of these mitigation techniques can be an effective tool in reducing individual risks and the risk profile of the project. The risk mitigation plan captures the risk mitigation approach for each identified risk event

and the actions the project management team will take to reduce or eliminate the risk.

A. Risk avoidance usually involves developing an alternative strategy that has a higher probability of success but probably at a higher cost associated with accomplishing a project task. A common risk avoidance technique is to use proven and existing technologies rather than adopt new techniques, even though the new techniques may show promise of better performance or lower costs.

B. Risk sharing involves partnering with others to share responsibility for the risk activities. Partnering with another entity to share the risk associated with a portion of the project is advantageous when the other entity has expertise and experience the project team does not have. If the risk event does occur, then the partnering entity absorbs some or all of the negative impact of the event.

C. Risk reduction is an investment of certain resources to reduce the risk on a project. Eg. Hedging for currency and commodity risks.

D. Risk transfer is a risk reduction method that shifts the risk from the company to another party. The purchase of insurance on certain items is a risk transfer method.

9. Policy Approval And Review

The Board will be the approving authority for the Company's overall Risk Management System, based on the recommendations of the Risk Management Committee. The Board /Risk Management Committee will monitor the compliance and approve the Risk Management Policy and any amendments thereto from time to time. This Policy will be reviewed atleast once in every two years, including considering the changing industry dynamics and evolving complexity.