

This is in compliance with clause 49 of Listing Agreement, which requires the Company to lay down procedures about the risk assessment and risk minimization.

- i. The Board of Directors of the Company and the Audit Committee of Directors shall periodically review the risk management policy of the Company so that management controls the risk through properly defined network.
- ii. Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and the Audit Committee.

## **1. Risks and Concerns**

### **Raw material risk**

Non availability of good quality paddy could negate the qualitative and quantitative production of rice.

#### **Risk mitigation**

The Company procures its paddy from the local markets and farmers across regions like Uttar Pradesh, Uttaranchal, Haryana and Punjab on a sustained basis on account of its large capacities and timely payments. The Company also has a policy of attractively remunerating the farmers for their produce. These measures have enhanced the Company's ability to increase its paddy availability.

KRBL has also undertaken various initiatives like contact farming and providing farm management services to ensure better quality produce from its farmers. It also works closely with Pusa Institute, providing the farmers with better seeds to increase yields and thereby ensuring better crop quality.

### **Quality risk**

Highest quality parameters are a must for any food related business or industry and any negligence in regard to the same could lead to severe consumer attrition.

#### **Risk mitigation**

The Company ensures the conformance to the highest quality standards coupled with fully automated and hygienic production units, laced with

adequate and comprehensive quality checks, resulting in superior products. The quality of the Company's products has not only led to better acceptance in even the fiercely competitive markets; but also has resulted in high repeat business on account of increased customer loyalty. Moreover the Company is certified for ISO 9001:2000, Hazard Analysis & Critical Control Point (HACCP) and SQF 2000, strengthening its quality commitment.

### **Competition risk**

Many competitors with cheaper variants of rice can actually capture the market with lower price schemes. Even plagiarism in terms of packet design, brand name, etc. can dent the Company's bottom line to a great extent.

#### **Risk mitigation**

The Company believes that in the long run, quality of rice is the sole consideration of the consumers and has therefore never compromised on its ageing or its high-end processing.

The Company has strong focus on Research & Development, which enables it to introduce new varieties of rice and derive a first mover's advantage for the initial specific period. KRBL has intensified its branding initiatives in recent years, to ensure a credible brand, which would differentiate the Company's top line even in a largely crowded commodity segment.

### **Foreign exchange risk**

KRBL is exposed to foreign exchange risk on account of its large exports.

#### **Risk mitigation**

At KRBL all revenue exposures are hedged to the maximum extent.

### **Realisations risk**

Any decline in the realisations would directly affect the Company's performance.

#### **Risk mitigation**

The Company sells all its varieties in retail packs, ensuring that while the quality is maintained on one hand; on the other hand its products don't get perceived or compared with the quality of unpacked unbranded rice.

The Company sells all the varieties under credible brands, which caters to all the major consumers, assuring them of the superior quality of the Company's products, leading to better realisations, even in the wake of large competing brands.

### **Cost risk**

The Company generally markets aged rice, leading to an accumulation of its inventory and resulting in a higher debt cost. Moreover, increased freight could dent profitability.

#### **Risk mitigation**

KRBL has consistently been a branded player of quality rice, and due to its established credibility it passes on this increased cost (freight and interest) to its customers.

Moreover, the aged rice fetches a higher premium in the markets, which recovers the cost of ageing handsomely.

### **Product concentration risk**

About 65 percent of the Company's total sales is derived from basmati rice varieties. Concentration on a single product type can hamper the Company's sustainability in the long run.

#### **Risk mitigation**

The Company manufactures and offers a large variety of basmati rice, indicating a wide product base. KRBL has also forayed into other value added products like rice bran oil and power. This wide product integration coupled with diversified product offerings would enable the Company to mitigate the risk of product concentration.

### **Other risks**

Apart from the risks mentioned above, the Company's business is exposed to other operating risks, which are mitigated through regular monitoring and corrective action.

## **2. Risk Management System**

As a diversified enterprise, the company has always had a system- based approach to business risk management. Backed by strong internal control systems, the current risk management framework consist of the following elements:

- The Corporate Governance Policy clearly lays down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from the strategic to the operational is specified in the Governance Policy. These role definitions, inter alia are aimed at ensuring formulation of appropriate risk management policies and procedures, their effective implementation and independent monitoring and reporting by Internal Audit.
- A combination of centrally issued policies and divisionally – evolved procedures brings robustness to the process of ensuring business risks are effectively addressed.
- Appropriate structures have been put in place to effectively address the inherent risks in businesses with unique / relatively high risk profiles.
- A strong and independent Internal Audit Function at the corporate level carries out risk focused audits across all businesses, enabling identification of areas where risk managements processes may need to be improved. The Audit Committee of the board reviews internal Audit findings, and provides strategic guidance on internal controls. Monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.

The combination of policies a processes as outlined above adequately addresses the various risks associated with your Company's businesses. The senior management of the Company periodically reviews the risk managements framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.