

### Risk Management Policy

Finolex Cables Limited understands that risk management enables an organization to achieve its objectives, improves stakeholder confidence and trust, and improves organizational resilience.

Finolex Cables Limited shall ensure implementation of effective Enterprise Risk Management (ERM) by:-

- Having a company-wide Risk Management framework with specific accountabilities and responsibilities at appropriate levels
- Identifying risks, assessing risks and treating the risks
- Ensuring adequate resources are allocated for management of risks
- Ensuring alignment of risk management objectives with the objectives and strategies of the organisation
- Strengthening the risk management system through continuous learning and improvement
- Communicating this policy to the required stakeholders.

Mr Deepak Chhabria  
Executive Chairman

## Risk Management Committee - Charter

### 1. PRINCIPLES & OBJECTIVES

- 1.1 The primary role of the Risk Management Committee ("Committee") of Finolex Cables Ltd ("Company") is that of assisting the Board of Directors ("Board") in:-
- Overseeing the Company's risk management process and controls.
  - Finalising plans and objectives for risk management, risk philosophy and risk minimization.
  - Reviewing compliance with Company policy.
  - Annual review and assessment of various risks including credit risk, operational risks, market risk, liquidity risk, investment risk, exchange risk, etc.
  - Overseeing Company's risk tolerance, capital liquidity and funding.
- 1.2 The Committee will report periodically to the Board on its activities.

### 2. COMPOSITION

- 2.1 The Committee shall be constituted by the Board. The majority of the Committee shall comprise members of the Board. Senior executives of the Company may be members of the Committee.
- 2.2 The Chairman of the Committee shall be an independent member of the Board.
- 2.3 The Company Secretary shall act as the Secretary to the Committee. The Secretary will be responsible for taking adequate minutes of the proceedings and reporting on actions taken in the subsequent meeting.

### 3. QUORUM

- 3.1 The quorum necessary for transacting business at a meeting of the Committee shall be any two members.
- 3.2 A duly convened meeting of the Committee at which the requisite quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

### 4. MEETINGS

- 4.1 The Committee shall meet from time to time as required, but in any case at least twice in a year.
- 4.2 The Committee may invite Company executives, as it considers appropriate.
- 4.3 While invitees to the Committee shall have a right to be heard in the meetings, they shall not have a right to vote. The right to vote shall vest only with the members of the Committee.

### 5. AUTHORITY & POWERS

- 5.1 The Committee shall act and have powers in accordance with the terms of reference specified in writing, by the Board, which shall include the following:
- Seek any information or explanation from any employee or Director of the Company.

- Ask for any records or documents of the Company and have full access to Company information.
- Engage independent consultants and advisors, including legal counsel or expert, as it deems appropriate.
- Secure attendance of outsiders with relevant expertise in Committee meetings, as the Committee considers necessary.

**6. RESPONSIBILITIES**

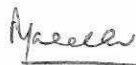
- 6.1 The responsibilities of the Committee shall include the following:
- Review the Company's risk governance structure, risk assessment and risk management practices and guidelines, policies and procedures for risk assessment and risk management.
  - Review and approve the Company wide Risk Management (ERM) framework.
  - Review the Company's risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risk, market risk, exchange risk, product risk and reputational risk, as well as the guidelines, policies and processes for monitoring and mitigating such risks.
  - Oversee Company's process and policies for determining risk tolerance and review management's measurement and comparison of overall risk tolerance to established levels.
  - Review and analyze risk exposure related to specific issues, concentrations and limit excesses, and provide oversight of risk across organization.
  - Review compliance with risk policies, monitor breaches / trigger trips of risk tolerance limits and direct action.
  - Nurture a healthy and independent risk management function in the Company.
  - Carry out any other function as is referred by the Board from time to time or enforced by any statutory notification / amendment or modification as may be applicable.

**7. REPORTING**

- 7.1 The Committee will report and update the Board periodically, on various matters that it has considered.
- 7.2 The annual report of the Company shall disclose the composition of the Committee, brief description of the scope of the Committee Charter, names of members, Chairperson, meetings, attendance.

**8. REVIEW OF CHARTER**

- 8.1 The adequacy of this Charter shall be reviewed and reassessed by the Committee, at least annually and appropriate recommendations shall be made to the Board to update the Charter based on the changes that may be brought about due to any regulatory amendments or otherwise.

  
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**Finolex**  
**Cables Limited**  
AN IS/ISO 9001 COMPANY

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Finolex Cables Limited

Risk Management Framework  
March 2021

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**DOCUMENT CONTROL SHEET**

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**I. Introduction**

The objective of this document is to create an awareness about various risks associated with the business of Finolex Cables Limited ('FCL' or 'the Company'), define the risk policies and outline the risk strategies.

The process involves risk identification, risk measurement, risk prioritisation, risk monitoring and risk escalation. This document sets out the infrastructure for risk management namely methodologies, systems and tools. This document defines the risk management structures by defining reporting lines and roles, and responsibilities.

The Board is responsible for establishing and overseeing the establishment, implementation and review of the risk management system. The Board may delegate to the Risk Management Committee (RMC) the responsibility of reviewing the effectiveness of the risk management system. The Framework may be reviewed periodically with the changes in business and market circumstances. All changes to the Framework should be approved by the Board (Committee).

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The Company is committed to implement a robust system of risk management to:

- Oversee the overall risk management process and controls;
- Improve its ability to prevent or timely detect risk events;
- Identify, discuss, escalate and provide suggestions for risk management;
- Annual review and assessment of various risks including credit risk, operational risks, market risk, liquidity risk, investment risk, exchange risk etc;

This Framework is intended to ensure that an effective risk management process is established and an appropriate reporting mechanism for the same is embedded within the company.

The management shall periodically assess the impact of changes in external and internal environment on the pertinence of this Framework. And if the Board deems fit, it may approve necessary changes to this Framework to align it with the prevailing business circumstances.

### 2.1. Definitions

This Risk Management Framework is formed around a common understanding of terminology used in this document:

#### a. Risk

It is the effect of uncertainty on objectives.

An effect is a deviation from the expected — positive and/or negative.

Objectives can have different aspects (such as financial, health and safety, and environmental goals) and can apply at different levels (such as strategic, organization-wide, project, product and process).

Risk is often characterized by reference to potential events and consequences, or a combination of these. Risk is often expressed in terms of a combination of the consequences of an event (including changes in circumstances) and the associated likelihood of occurrence.

Uncertainty is the state, even partial, of deficiency of information related to, understanding or knowledge of an event, its consequence, or likelihood.

#### b. Risk Management

Refers to coordinated activities to direct and control an organization with regard to risk.

#### c. Risk Identification

It is the process of finding, recognizing and describing risks.

Risk identification involves the identification of risk sources, events, their causes and their potential consequences. Risk identification can involve historical data, theoretical analysis, informed and expert opinions, and stakeholder's needs.

#### d. Risk Analysis

It is a process to comprehend the nature of risk and to determine the level of risk.

Risk analysis provides the basis for risk evaluation and decisions about risk treatment. Risk analysis includes risk estimation.

#### e. Risk Evaluation



Risk evaluation is the process of comparing the results of risk analysis with risk criteria to determine whether the risk and/or its magnitude is acceptable or tolerable. It assists in the decision about risk treatment.

f. Risk Assessment

Risk assessment is the overall process risk identification, risk analysis and risk evaluation.

g. Risk Classification

Risk elements are classified into various risk classes, termed as 'risk baskets'. Risks are grouped for better management and control. Each risk class is appropriately defined for the purpose of common understanding.

h. Risk criteria

These are the terms of reference against which the significance of a risk is evaluated. Risk criteria are based on organizational objectives, and external and internal context. Risk criteria can be derived from standards, laws, policies and other requirements.

i. Level of risk

It refers to the magnitude of a risk, expressed in terms of the combination of consequences and their likelihood.

j. Likelihood

It is the chance of something happening, whether defined, measured or determined objectively or subjectively, qualitatively or quantitatively, and described using general terms or mathematically (such as a probability or a frequency over a given time period).

## 2.2. Documentation

Appropriate documentation of each stage of the risk management process should be followed. This framework provides a guide to documentation standards and how they are to be utilised.

The documentation will serve following purposes:

- to provide evidence of a systematic approach to risk identification and analysis;
- to provide a record of risks to support the development of a database of the Company's risks;
- Provide accountability for managing the risks identified;
- Facilitate continuous monitoring and review;
- Share and communicate risk management information across the Company.

The responsibility for documenting the individual risks has been assigned to the risk owners. They are responsible for performing and documenting risk assessments and developing appropriate treatment plans.

The key documents pertaining to the risk management process that needs to be maintained by the Company are:

- Risk Management Framework and Policy:  
The Framework defines the Risk Management process of the Company.
- Risk Register:  
It contains list of all risks that have been identified during the periodical review.



It is the key document used to communicate the current status of all known risks and is used for management control, reporting and reviews.

- Risk Profile:  
All risks identified should be profiled. The risk profile provides detailed documentation and attributes of risk along with details of actions planned for risk mitigation.

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The organization structure for risk management is depicted through the flow chart below. Detailed notes on roles and responsibilities of each level follow.



### 3.1. Risk Management Committee (Board-Level)

The Committee shall be constituted by the Board. The Committee Members will be as may be decided by the Board from time to time but the majority of the Committee shall comprise members of the Board. Senior executives of the Company may be members of the Committee.

The Chairman of the Committee shall be an independent member of the Board, as may be decided by the Board.

The Chairman of the Committee will chair the meetings of the RMC. The Company Secretary will be responsible as the Secretary to the RMC. The RMC shall meet from time to time as required, but in any case at least twice in a year. Reports of RMC's activities (agendas, decisions) and meetings (including attendance) will be maintained for each meeting by the Secretary of the RMC.

The quorum necessary for transacting business at a meeting of the Committee shall be any two members.

The Committee shall act and have powers in accordance with the terms of reference specified in writing, by the Board, which shall include the following:

- Seek any information or explanation from any employee or Director of the Company.
- Ask for any records or documents of the Company and have full access to Company information.
- Engage independent consultants and advisors, including legal counsel or expert, as it deems appropriate.

- Secure attendance of outsiders with relevant expertise in Committee meetings, as the Committee considers necessary.

The adequacy of this Framework shall be reviewed and reassessed by the Committee, at least annually and appropriate recommendations shall be made to the Board to update the Framework.

### 3.2. Risk Review Committee (RRC)

There will be six Risk Review Committees (RRC) in Finolex Cables Limited:-

- RRC Corporate Marketing
- RRC Corporate Support
- RRC Urse
- RRC Verna
- RRC Usgaon
- RRC Roorkee

The RRC would have representatives from all functions. The functional owners would be designated as Risk Owners. Role of Risk Owners is to assess, review, monitor risks, evaluate and validate the status of risk mitigation plans and propose controls.

### 3.3. Risk Champions

Risk Champions need to be assigned for the risks identified during risk identification and assessment process. A Risk Champion is attached to a particular risk and the mitigation plan for the risk.

The Risk Owners and Risk Champions shall meet on a periodic basis to discuss new risks added to the risk register and to review the implementation status of mitigation plans. Any risks reassessed as high during the meeting of the Risk Owners and Risk Champions, shall be escalated to the RRC, as the case may be on an immediate basis.

### 3.4. Roles & Responsibilities

The risk management roles and responsibilities will be as follows:

Role	Responsibility
Board of Directors	<ul style="list-style-type: none"> <li>• Review and approve the risk management Framework and Policy and risk register for the company</li> <li>• Delegate monitoring and review of the risk management framework as deemed fit to the RMC</li> <li>• Reporting to Shareholders in Board's report</li> </ul>
Risk Management Committee (RMC)	<ul style="list-style-type: none"> <li>• Review the Company wide Risk Management (ERM) framework.</li> <li>• Review the Company's risk assessment and risk management practices.</li> <li>• Oversee Company's process and policies for determining risk tolerance and review management's measurement and comparison of overall risk tolerance to established levels.</li> <li>• Review the Risk Management Report prepared by RRC and table to the Board of Directors and Audit Committee.</li> </ul>



<p>Risk Review Committee (RRC)</p>	<ul style="list-style-type: none"> <li>• Coordinate the risk management initiative for the organization as a whole, as per the risk management framework and policies and the directives of the RMC</li> <li>• Responsible for identifying, assessing and mitigating risks</li> <li>• Monitor emerging issues and shares best practices</li> <li>• Oversee projects to implement risk mitigation strategies</li> <li>• Ensure that the risk register and risk profiles are reviewed and updated half yearly.</li> <li>• Prepare Risk Management Report for the RMC.</li> </ul>
<p>Employees</p>	<ul style="list-style-type: none"> <li>• Responsible for identifying risks</li> <li>• Compliance with requests from Management for application of this framework</li> <li>• Exercise care to prevent loss, to maximize opportunity and to ensure that the operations, reputation and assets are not adversely affected</li> </ul>

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4. Risk Management Process

4.1. Risk Identification

Comprehensive risk identification using a well-structured systematic process is critical, because a potential risk not identified is excluded from further analysis. Identification should include all risks whether or not they are under the control of the Company. Risks can be identified in a number of ways, viz:

- Structured workshops;
- Brainstorming sessions;
- Occurrence of a loss event;
- Review of documents.

Each Risk Owner must periodically review the risks within their functional areas. Workshops or brainstorming sessions may be conducted amongst the focus groups to identify new risks that may have emerged over a period of time. Any loss event may also trigger risk identification.

All identified risks should be updated in a risk register. Risk registers should be periodically reviewed by the respective risk owners, to ensure pertinence of the risks listed. Risks that would have ceased should also be closed appropriately. The RRC should ensure that the risk register is reviewed and updated half yearly.

4.2. Risk Analysis

The risks will be analysed on qualitative two-fold criteria. The two components of risk assessment are (a) the likelihood of occurrence of the risk event and (b) the magnitude of impact if the risk event occurs. The combination of likelihood of occurrence and the magnitude of impact provides the inherent risk level.

The magnitude of impact of an event, should it occur, and the likelihood of the event and its associated consequences, are assessed in the context of the existing controls. Impact and likelihood may be determined using statistical analysis and calculations. Alternatively, where no past data are available, subjective estimates may be made which reflect an employee's or group's degree of belief that a particular event or outcome will occur.

In determining what constitutes a given level of risk the following scale is to be used for likelihood:

Level	Descriptor
5	Almost Certain
4	Likely
3	Possible
2	Unlikely
1	Rare

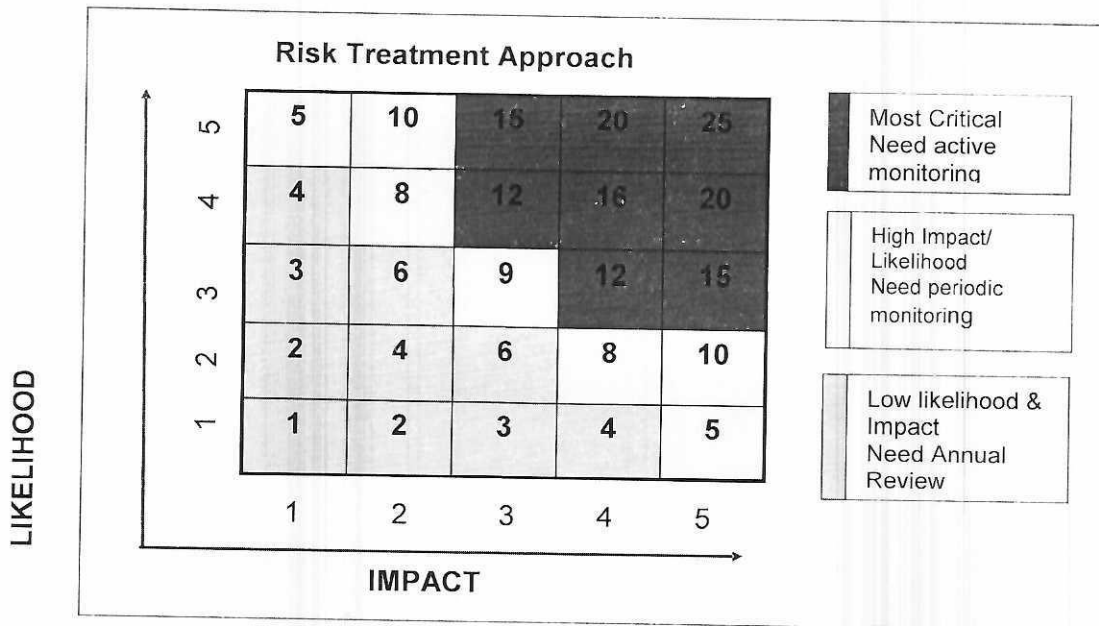
In determining what constitutes a given level of risk the following scale is to be used for impact.

Level	Descriptor
5	Very high
4	High
3	Medium
2	Low
1	Very low

#### 4.3. Risk Evaluation

Impact and likelihood are combined to produce a level of risk. Average of the group's score should be determined. The risk should be classified into three zones based on the combined scores of the group.

- Risks that score within a red zone are considered “unacceptable” and require immediate action plans to close a significant control gap. (Average score of 12 and more)
- Risks that score within the yellow zone are considered “cautionary” where action steps to develop or enhance existing controls is also needed. (Average score in the range of above 6 to below 12)
- Risks that score within the green zone are considered “acceptable” or in control. (Average score less than 6).



Note: The boxes with value 5 have been included in the Yellow (Cautionary) zone due to very high likelihood / impact scores

#### 4.4. Risk Treatment / Action Plan

Risk treatment involves identifying the range of options for treating risks, assessing those options, preparing risk treatment plans and implementing them. Treatment options may include: -

- Accepting the risk level within established criteria;
- Transferring the risk to other parties viz. insurance;
- Avoiding the risk by adopting safer practices or policies; and
- Reducing the likelihood of occurrence and/or consequence of a risk event.

The risk assessed as critical should be profiled in the 'Risk profile format' provided in Annexure II. The profile contains details of the risk, its contributing factors, risk scores, controls and action plans. Action plans need to be time bound and responsibility driven to facilitate future status monitoring. Mitigating practices and controls shall include processes that will bring down the existing level of risks to an acceptable level. In many cases, significant risk may still exist after mitigation of the risk level through the risk treatment process. These residual risks will need to be considered appropriately. In case of financial risks, this can be accomplished by a combination of:

- Insurance by external agencies; and
- Self-insurance or internal funding.

#### 4.5. Escalation of risks

It is critical to institute an effective system of escalation, to ensure that specific issues are promptly communicated and followed up appropriately. Every employee of the Company is responsible for identifying and escalating the risks to appropriate levels within the organization. The respective risk owners will determine whether the risk needs immediate escalation to next level or it can wait till subsequent periodic review.

#### 4.6. Risk Reviews

Risks and the effectiveness of control measures need to be monitored, to ensure that changing circumstances do not alter risk priorities. Few risks remain static. Ongoing review is essential to ensure that the management plans remain relevant. Factors, which may affect the likelihood and impact of an outcome, may change, as may the factors, which affect the suitability or cost of the various treatment options.

A risk review involves re-examination of all risks recorded in the risk register and risk profiles to ensure that the current assessments remain valid. Review also aims at assessing the progress of risk treatment action plans. Risk reviews should form part of agenda for every RRC meeting. The risk register should be reviewed, assessed and updated on a half yearly basis.



A 'Risk Management Report' should be prepared by the RRC and discussed by the RMC. The report should be placed before the Audit Committee and Board. The frequency of review and reporting of the risk management is given below:

Function	Frequency	Date
Risk register review	As and when risk are identified and assessed, or at least on half yearly basis	March and September
Risk assessment	As and when risk are identified, or at least on half yearly basis	March and September
Risk profile review	Half yearly	March and September
Risk Management Report	Half yearly	March and September

**6. Other aspects related to risk management**

The Company has also implemented an Exchange Risk Management Policy.

**Annexure I: List of risk classes / baskets**

Sr. No.	Risk Classes/Baskets	Examples
1	Strategy and Planning Risk	Risks regarding business model, product innovation
2	Marketing Risk	Risks to product categories or market shares.
3	Operations Risk	Risks from the breakdown, inadequate infrastructure
4	Supply chain Risk	Logistical bottlenecks, product damage risks
5	Procurement Risk	Risks regarding material sourcing
6	Human Resource Risk	Risks related to talent recruitment, retention
7	Information Technology Risk	Risks relating to upgradation of ERP and MIS
8	Legal Risk	Contract compliance risks
9	Environment and Climate	Risks emanating from changes in Environment and Climate.

This list may be modified in future to add risk baskets that may emerge.

**Annexure II: Risk Profile**

<b>Risk Reference No:</b>				
<b>Risk Category</b>				
<b>Risk Statement</b>				
<b>Risk Owner</b>				
<b>Date of review:</b>				
<b>Contributing Factors</b>			<b>Existing Controls</b>	
<b>Ref No</b>	<b>Description</b>	<b>Ref No</b>	<b>Description</b>	
<b>Risk Rating</b>				
<b>A. Likelihood Rating [1-5]</b>				
<b>B. Impact Rating [1-5]</b>				
<b>Overall Risk Rating (A*B)</b>				
<b>Risk criticality</b>				
<b>Description of controls:</b>				
<b>RISK MITIGATION PLAN</b>				
<b>Sr. No.</b>	<b>Description</b>	<b>Target date</b>	<b>Responsibility</b>	<b>Status</b>
1.				
2.				

**For Finolex Cables Limited**

*Mahesh*

**Mahesh Viswanathan**  
 Chief Financial Officer  
 09.02.2023

**PART - B**

**FINOLEX CABLES LIMITED**

**Exchange Risk Management Policy**

**For Corporate Treasury**

**1. Background**

In view of the fact that the Company has dealings in foreign currency for imports, exports, foreign exchange loans, etc. coupled with the fact that the forex market has been quite volatile, it is important that the Company lays down a broad framework for proactive Forex Risk management. Apart from that, the RBI also requires that each Company's Board should approve a Forex Hedge Policy and institutionalize a framework to review the implementation of the Policy.

RBI, vide its circular dated November 2, 2011, had modified the Comprehensive Guidelines on Derivatives. These guidelines are applicable to all permitted generic and structured derivative products except forward contracts which shall continue to be governed by Circular AD (DIR) 32 dated 28.12.2010. It has made it compulsory for banks to ask its corporate clients dealing in all permitted generic and structured derivatives to furnish a board resolution in a specific format on its Risk Management Policy whereby the Board confirms that the Company has a Risk Management Policy which contains the following:

- Guidelines of risk identification, measurement, reporting and control.
- Guidelines and procedures to be followed with respect to revaluations and monitoring of positions including MTM (Mark to Market)
- Designation of officials authorized to undertake transactions and limits per transactions assigned to them and a requirement that the assignment of limits to an official would be on per transaction basis.
- A requirement to ensure separation of duties between front, middle and back office.
- Mechanism regarding reporting of data to the Board including financial position of transaction etc.

Hence in this Policy, the following have been incorporated, as required by RBI:

- An organizational Structure segregating work between Front Office, Middle Office and Back Office and the function of each properly outlined.
- Designation of the officials authorized to undertake transaction, limits per transaction assigned to them and a requirement that the assignment of limits to an official to be on a per transaction basis.
- Adherence to proper Accounting Policy and disclosure norms to be followed in respect of derivative transactions.
- Derivative transactions involving leveraged and exotic products shall be entered into only with the prior express permission of the Board and if the then prevailing RBI policy permits the usage of such products.

## 2. Objectives

**The objective of this policy is to provide an overarching framework for managing the cash flow risks associated with Foreign exchange and Interest rate exposures of the company. Specifically the policy aims to:**

- a. On the **'operational' side** [cash flows arising from regular import and export transactions], minimize the impact of adverse fluctuations in the foreign currency rates on the cash flows;
- b. On the **'financing' side** [cash flows associated with foreign currency debt servicing obligations, i.e. principal and interest payments], minimize exchange risk while servicing loans taken in foreign currency, which may arise from adverse exchange rate movements away from the target exchange rate;
- c. On the **'project side'** [cash flows arising from imported capital equipment], adherence to INR benchmarks set during the costing of given project;
- d. Investment in subsidiaries abroad, if any, either in terms of equity, shareholder's loans, etc.;
- e. Pre-shipment and post-shipment credits in foreign currency or any short term loan from banks;
- f. Suppliers credits / Buyers credit.

In essence, the objective is to reduce, if not eliminate, any losses due to foreign exchange and Treasury related transactions.

## 3. Risk Management approach

Establishing successful policy frameworks involves articulating objectives, strategies and tactics and defining how performance will be measured.

The framework of this policy is enumerated as under:

- Risk Management policy document approval and review process
- Authority structure for entering and approving the market deals based on size of the deal
- Documentation of Business processes resulting in inception of Currency risk to the cash flows
- Identification and quantification of Currency risks pertinent in these business processes followed by the company
- Benchmarking of exposures for effective risk management

- Defining acceptable threshold limits for Stop loss & Stop Profit triggers, dealing limits, approval limits, hedging ratio etc.
- Setting up of MIS framework for seamless information flow
- Validity check for appropriateness and suitability of hedging policy
- Accounting framework of translation of foreign currency exposures and their related outstanding hedges

#### 4. **Exchange Rate Risk**

- a. Foreign exchange **transaction risk** is the risk that the company's cash flows will be adversely affected by movements in exchange rates that will increase the value of foreign currency payables, or will diminish the value of foreign currency receivables.
- b. Foreign exchange **translation risk** relates to the effect of currency movements on the value of a company's assets and liabilities denominated in foreign currencies when those values are translated into the functional currency of the company for accounting purposes.
- c. Foreign exchange **economic risk** related to the effect of currency movements on the domestic revenues and cost components which are linked to global price movements.

For the purpose of this policy, Foreign Currency is defined as any currency that is denominated other than in Indian Rupees.

#### 5. **Identification of Foreign Exchange Exposure**

An Exposure can be defined as a Contracted or Projected Cash Flow whose magnitude in Indian Rupees is not certain at the moment the transaction is entered into. The company has foreign currency exposures on account of following items:

##### a. **Trade operations**

- i. Export
- ii. Imports
- iii. Other foreign currency receivable/payables like quality claims, commission etc.
- iv. Supplier's credit / Buyers credit in foreign exchange.

##### b. **Short term exposures**

- i. Foreign currency short term loans in form of FCNR(B), PCFC
- ii. Short term bridge loans denominated in foreign currency
- iii. Foreign exchange debt Principal and interest repayments due within 1 year

##### c. **Long term liabilities**

- i. Long term foreign currency liabilities for project expenditure
- ii. Payments due against imported capital equipment for projects

## Export Receivables

The inception of exchange fluctuation risk on foreign currency receivables happens the moment export marketing department confirms the contract with a customer at an underlying rate foreign currency conversion rate used for pricing that contract

For the purposes of identifying the exposures, the export receivables need to be segregated into two parts:

- a. **Actual/Confirmed receivables:** These receivables relate to export orders already committed for which shipment has either already happened or yet to happen. As a result of which, the tentative date of receipt is almost certain based upon the shipment schedule and credit terms.
- b. **Forecasted receivables:** These receivables are based upon the company's sales budget and the dispatch plans.

**For the purposes of this policy only Actual/Confirmed receivables will be hedged using permitted hedging instruments.**

## Import payables:

The inception of exchange fluctuation risk on foreign currency payables happens the moment purchase department confirms the purchase contract with supplier at an underlying foreign currency conversion rate used for pricing that contract.

For the purposes of identifying the exposures, the import payables need to be segregated into two parts:

- a. **Actual/Confirmed payables:** These receivables relate to import orders already committed for which shipment has either already happened or yet to happen. As a result of which, the tentative date of payment is almost certain based upon the shipment schedule and credit terms.
- b. **Forecasted payables:** These payables are based upon the company's procurement budget in line with the dispatch plans.

**For the purposes of this policy only Actual/Confirmed payables will be hedged using permitted hedging instruments.**

## 6. Management of Exposure

It is prudent to follow hedging of exposures to minimize the negative impact of exchange risk on cash flow and profitability of the company. The overall hedging of exposures shall be governed by following risk management parameters:

- All exports and imports on trade account are to be hedged using a forward cover. The Company is risk averse in the short term and would seek to protect margins by

removing the variability related to currency fluctuations.

- Imports of capital equipment will be financed either by way of Buyers Credit (initially for a period of 6 months, extendable subject to credit availability to a period of 3 years) or by way of Long Term Loans. Where the financing is by way of a short term Buyers Credit, such imports will be covered by a forward cover. Where, however, such imports are financed by a confirmed long term Buyers Credit or by way of a Long Term Loan, such exposure will be covered by means of an Option contract.
- Similarly, other Long term foreign currency liabilities (such as an ECB for eg) will be covered by Option contracts.

**In the case of forward covers for short term exposures, all exposures above a value of USD 25000/- will be fully hedged.**

**In the case of option contracts for Long Term exposures, at any point in time at least 50% of the outstanding exposures or exposures in excess of USD 10 million will be covered.**

**Trading in currency derivatives is completely prohibited under the Company policy – the aim of this policy is to secure protection against possible currency fluctuations and there is no intent to seek gains out of currency fluctuations.**

**Communication with banks and foreign exchange dealers in connection with obtaining quotes, confirming forward covers or options will follow the protocol laid down in Board Resolutions (as modified from time to time) in this regard.**

**Quarterly disclosure of covered exposures will be made to the Board.**

#### **FOREX RISK MANAGEMENT – DELIGATION OF AUTHORITY**

The Board, after approving the Forex Risk Policy, is empowered to delegate the monitoring and review of the policy to a Forex Risk Management Committee (FRMC). The Board shall review the Forex Risk Management on an annual basis. Any modification to this Policy shall be effective on the recommendation of the Audit Committee and approval of the Board.

The FRMC will comprise of:

1. Managing Director
2. Director Finance & CFO
3. President / SVP / VP - Finance

#### **ROLES AND RESPONSIBILITIES OF FRMC:**

The FRMC should meet monthly over the phone, electronically or otherwise and discuss the following:

1. Current exposures of the Company (both transaction and translational)
2. Current market situation, in particular in foreign currencies which are critical to the operations of the Company
3. Outstanding Hedging position



4. Take hedging decisions within the agreed broad framework of hedging rules, ratio, process and instruments.

Key decisions of the FRMC shall be minuted

#### **ROLES AND RESPONSIBILITIES OF TREASURY:**

Treasury would be responsible for the following:

1. Identifying forex exposures of the Company
2. Monitoring financial market trends to assess the risks vis-à-vis exposures
3. Consider and evaluate alternative hedge strategies to mitigate the risks
4. Process of evaluation of hedge prior to executing the transaction:
  - a. Speaking to banks for market views
  - b. Taking market views from other Finolex group companies
  - c. Speaking with external agencies, if any are appointed
  - d. Taking quotes from various banks
  - e. Evaluating the effectiveness of hedge
5. Execution of hedge
6. Compliance with current and future legal requirements
7. Maintaining appropriate documentation
8. Review and report to the FRMC in case of change of scenario or sudden events

The relevant foreign exchange transactions and contracts should be authorized and executed by the directors, officers as listed in the Board Resolution dated 3<sup>rd</sup> May 2012, or such other amended resolution, from time to time.

#### **ROLES AND RESPONSIBILITIES OF FINANCE AND TREASURY DEPARTMENTS:**

**On a monthly basis**, Treasury and Finance Departments shall review the status in respect of the following:

- a. Month wise foreign currency principal and interest installments becoming due over next 12 months
- b. Due date of short term loans, FCNR (B) and PCFC loans
- c. Proposed drawdown of Foreign currency short term loans based upon cash flow planning
- d. Details of Long term foreign currency liabilities (FCL, FCCB and ECB) for project expenditure, such as
  - Amount outstanding as at the end of each month
  - Average Maturity and terminal maturity date of the loan
  - Interest rate
- e. Actual and forecasted schedule of payment for liabilities incurred for procuring imported capital equipment to be obtained **from Purchase Department**

#### **PERMISSIBLE INSTRUMENTS AND CURRENCIES:**

##### **Permissible currencies**

The permissible currencies in which the Company would enter into deals and derivatives would be USD, Euro, GBP and JPY. The FRMC of Finolex Cables has the discretion to permit deals in other currencies.

**Permissible Instruments**

The various instruments that RBI has permitted are listed in Annexure 1

Instruments for different Tenors used / to be used by Finolex Cables are:

Tenor of the exposure	Hedging Tool - Currency	Hedging Tool - Interest Rates
0 - 6 months	Forwards, vanilla options (plain)	To be negotiated in the loan document
6 months - 1 year	Forwards, vanilla options (plain)	To be negotiated in the loan document
1 year - 3 years	Principal Only Swaps, Interest Only Swaps, options	IRS, MIFOR & Option Contracts
More than 3 years	To be referred to the Board	

Prior to entering into any hedge transaction, approval should be taken from the directors/officers as per the relevant Board Resolution and the hedge should be within the limits specified in the relevant FRMC meeting.

The above table is only indicative and is for providing guidance on the nature of hedging tools to be used by the Company and its subsidiaries, if any. However, depending on the market conditions, it may be necessary to use other hedging tools. The FRMC of the Company has the discretion to consider other permissible instruments as given in Annexure 1 and to decide on it. Derivative transactions involving leveraged and exotic products shall be entered into only with the express prior permission of the Board and if the extant RBI policy permits usage of such products

**GUIDING PRINCIPLES TO GOVERN THE ABOVE STRATEGY:**

- a. Risk identification and quantification shall be owned by Treasury.
- b. The hedging decision and the hedging instrument shall be decided giving regard to the currency view for the tenor of the hedge.
- c. The internal view shall be formulated considering views of banks and other Group Companies. If required the help of outside consultants may also be sought from external experts, whether individual or agencies, subject to prior approval of FRMC.
- d. The accounting perspective should be checked before arriving at any decision on the process in conjunction with the Accounts team and proper accounting policy and disclosure norms shall be followed in respect of derivative transactions
- e. Tenor and Amount Limit:  
The tenor and amount of the deal shall not exceed the tenor and value of underlying exposure, the nature of the transaction is to hedge risk, not be speculative.
- f. Hedges with tenor of 3 years or more will require approval from the Board in addition to

approval from the FRMC.

g. Counterparty Limits:

Sr No	Bank Name	Notional Amount
1	Bank of Baroda	USD 15 million or equivalent
2	Central Bank of India	USD 15 million or equivalent
3	Citi Bank	USD 15 million or equivalent
4	Corporation Bank	USD 15 million or equivalent
5	HDFC Bank	USD 15 million or equivalent
6	ICICI Bank	USD 15 million or equivalent
7	State Bank of India	USD 15 million or equivalent
8	The Bank of Nova Scotia	USD 15 million or equivalent
9	Axis Bank	USD 15 million or equivalent

The above limits can be reviewed and increased by the FRMC within the limits approved in this regard by the Board from time to time. Also, additional counterparty banks may be recommended to the FRMC based on the bank's India/overseas credit rating and the relationship with the Company. The FRMC may approve of such new counterparty through mails or physical meetings.

**provided that** the aggregate limit for all the counterparties (Banks) put together shall not at any time exceed the ceiling limit of USD 100 Million or equivalent currency;

**provided further that** for purpose of compliance with the aforesaid individual Bank wise limit of USD 15 Million or equivalent currency and/or the overall ceiling limit of USD 100 Million or equivalent currency, the notional amounts of all outstanding forex forward contracts and/or derivative contracts entered into by the Company with each of the concerned Bank and/or all the Banks put together, as may be applicable, shall be taken into account and the notionals of any long and short positions shall not be netted off for the said purpose; and

An ISDA agreement between the Company and the counter-party bank should be a pre-requisite to enter into a derivative transaction.

**ORGANIZATIONAL STRUCTURE:**

- There shall be complete segregation of Front Office, Middle Office and Back Office in terms of functionality, with respect of dealing in Derivatives Contracts. The domain of responsibility under various offices is described below:

Front Office	To take quotes from banks, transact with the banks and report to Middle Office the details of the deals.
Middle Office	To verify the terms of the deal and check compliance issues (including individual bank limits) and to act as bridge between Front and Back Office.
Back Office	To report the deal to signing and reporting authorities and to check accounting, settlement and reconciliation of the deal.

- The designation of officials authorized to transact the hedge in accordance with the

relevant FRMC decision and limits per transactions are as follows:

1. President / SVP / VP - Finance: USD 1 million per transaction
  2. Senior Manager - Finance: USD 1 million per transaction
- The settlements shall be done by the back office after confirmation with the counterparties (banks)
  - The confirmation can be done over the recorded lines with the counterparties (banks).
  - The signing and reporting authority for such transaction will rest on the concerned Directors/Officers of the Company as per Board Resolution dated 3<sup>rd</sup> May 2012 or such other amended resolution, which is to be submitted to the concerned bank before transactions are undertaken.
  - There will be a formal and independent compliance function which monitors legal, regulatory, policies, procedures and limits.
  - There shall be an annual internal audit of the Treasury (Front, Middle and Back Office) to be done by the internal audit department.

#### **IT INFRASTRUCTURE:**

- Newswire 18, Bloomberg or Reuters are recommended as a News Service, along with its pricing system, to ensure proper rates and quotes.

#### **POST EXECUTION RISK MANAGEMENT ACTIVITIES:**

After the execution of deals, following shall be taken care of for better internal control, by the Middle and Back office:

- Ensuring requisite approvals have been taken for all hedges
- Ensuring each deal is designated to the underlying exposure
- Ensuring deals are recorded in a proper handbook/register for the same
- Ensuring deal is recorded correctly in the accounting system
- The Back-office would issue deal confirmations (duly authorized by the signatories) to the counterparties and their deal confirmation to be matched with the Bank records. Any mismatch to be investigated immediately with the dealer and the counterparties and resolved.

#### **MIS AND REVIEW MECHANISM:**

- Exposure reports (clearly mentioning the hedged / un-hedged positions with the tenor and currency details) and profit/loss reports would be circulated to the related authorities on a monthly basis and to the Board of Directors on a quarterly basis.
- There would be proper periodic review meeting of Treasury by respective authority responsible to ensure proper control and performance.
- A proper performance monitoring of the hedges would be done through maintaining proper mark to market (MTM) records (this would be done either on Bloomberg/Reuters or reliance would be placed on bank confirmations) and a deal-wise P&L.
- MTMs of the hedges executed should be furnished to the FRMC on a monthly basis. The evaluation will be done on the last day of every month.
- Review exposure and report to the FRMC in case of change of scenario or sudden events.
- Bank-wise hedges vis-à-vis limits with each bank to be maintained.

- Adherence to requirements under applicable accounting standards to be ensured.
- The Board will be informed periodically the position regarding forex exposure and action taken to mitigate the same.

### Annexure 1

In addition to generic derivative products, structured derivative products may be used as long as these products do not contain any derivative instrument as underlying and provided that they have specifically been permitted by Reserve Bank of India (RBI)

The various instruments that RBI has permitted are as follows:

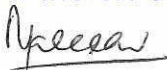
Generic derivative products:

- Forex Forward Contracts
- Forward Rate Agreements
- Interest rate caps and floors (plain vanilla only)
- Plain Vanilla Options (call option and put option)
- Interest Rate Swaps
- Currency Swaps including Cross-Currency Swaps

Structured derivative products:

- Instruments which are combination of either cash instrument and one or more generic derivative products
- Instruments which are combination of two or more generic derivative products

**For Finolex Cables Limited**



**Mahesh Viswanathan**  
**Chief Financial Officer**  
09.02.2023