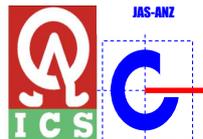


Risk Management Policy & Procedures and Risk Management Committee Charter



Conart Engineers Limited

Where Construction Engineering Becomes An Art



ISO 9001: 2008
Reg.No.:RQ-91/050

An ISO 9001 : 2008 Certified Company

www.conartengineers.com

{1} RISK MANAGEMENT POLICY & PROCEDURES

[1] Introduction

Oxford Dictionary defines the term “**risk**” as a chance or possibility of danger, loss, injury or other adverse consequences.

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Paragraph (C) of sub-clause IV of Clause 49 of the Listing Agreement states as under:

“The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework”

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009.

[2] Back Ground and Implementation

- i. CONART ENGINEERS LIMITED (CEL) is a Construction Company prone to inherent business risks like any other organization. This document is intended to formalize a risk management policy the objective of which shall be identification, evaluating, monitoring, and minimizing identifiable risks. This is in compliance with clause 49 of Listing Agreement, which requires CEL to lay down procedures about the risk assessment and risk minimization.
- ii. 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 net work.
- iii. 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.
- iv. Risk Management System

Opportunities and Threats: Fluctuations in market conditions may affect our ability to construct our projects at expected prices, which could adversely affect our revenue and earnings. As in any other business, the Construction sector is also likely to face competition from existing as well as new players, both domestic as well as foreign. However, your Company hopes to address the competitive threat on the strength of its emphasis on quality of construction, adoption of innovative designs

and provision of qualitative services and of course, by using its advantage of experience.

The Company remains firmly committed to its objective of high quality coupled with aggressive cost reduction initiatives. The performance of the Company in Contracts Division is satisfactory but sometimes we have to face cost escalation and catastrophic seasonal conditions which cause delay in the implementation of the works. New competitors have entered the core area of our operations in recent times. The fight for the market share has intensified with competition resorting to higher advertising costs.

This combined with substantial increase in costs of critical inputs like cement, steel etc., have neutralized the impact of Government's positive policies for developers.

[3] Risk Strategy:

We, at **CONART** recognise that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

The Company believes that the Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky businesses;
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

Conart Engineers Limited is an ISO-9001 certified company, is engaged in more than four decades (40 years) of services in the field of Construction Engineering and Project Management. The Company oversees projects ranging from small interior renovations to some of the most recognizable architectural, industrial and commercial landmarks. The Company's diverse portfolio encompasses Residential, Heavy Industrial, Pharmaceutical, Transportation, Commercial, and government services. We, at Conart, bring an unmatched combination of knowledge, skill, experience, and customer commitment to every job.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the firm. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have

critical impact on the firm and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

[4] Risk Management Framework

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into:

Strategic:

- Organizational Growth.
- Comprehensive range of services.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating new geographic markets.
- Continuing to enhance our industry expertise.
- Enhance our capabilities through technology alliances and acquisitions.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality production.
- Further develop Culture of Innovation.
- Attract and retain quality technical associates and augmenting their training.

Reporting:

- Maintain high standards of Corporate Governance and public disclosure.

Compliance:

- Ensure stricter adherence to policies, procedures and laws /rules / regulations standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary. Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures.

CONART adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Management Committee with Independent Directors. A periodical report will be submitted to the Board about the measures taken for mitigation of Risk in the organisation.

We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level and Joint Venture level are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz.,

- (1) Risk Assessment (2) Risk Management (3) Risk Monitoring.

Risk Assessment : Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management and Risk Monitoring: In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments are worked out on a period basis in the following areas:

1. Financial Reporting Risks

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances including consultation with experts in the field, scrutiny of published data for the particular sector or sphere, comparative study of other available corporate data, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks.

We believe that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.

2. Risk of Corporate accounting fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of Misusing or misdirecting of funds, overstating revenues, understating expenses etc.

The Company mitigates this risk by -

- Understanding the applicable laws and regulations,
- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives,
- Instituting Whistleblower mechanisms,
- Deploying a strategy and process for implementing the new controls,
- Adhering to internal control practices that prevent collusion and concentration of authority,
- Employing mechanisms for multiple authorisation of key transactions with cross checks,
- Scrutinising of management information data to pinpoint dissimilarity of comparative figures and ratios,
- Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and manuals and a host of other steps throughout the organisation and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

3. Legal Risk

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.

We have an experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments.

Management places 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. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.

The Company has established a compliance management system in the organisation and Secretary of the Company being the focal point will get the quarterly compliance reports from functional heads and being placed before the Board supported by a quarterly Secretarial Audit report by a practicing Company Secretary in compliance with clause 49 of the listing agreement.

4. Compliance with Local Laws

The Company is subject to additional risks related to our expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of goods and technologies and multiple and possibly overlapping tax structures.

5. Quality and Project Management

For years CEL is engaged in construction for various industries as per mutually accepted requirements of the Customers.

Our Commitment towards total Quality Management is to build the Human Resources of our organisation into a team that promotes continual improvement in quality of products and services.

Considerable focus is given to adherence to PERT charts, targeted dates and commitment to quality in every project and customer feedback is studied with personal interaction with them before, during and after project completion.

CONART is committed to maximise customer satisfaction and keep a clean and safe environment. We are accredited for ISO 9001 – 2008 certification standards in our Construction and Engineering.

6. Environmental Risk Management:

The Company endeavours to protect the environment in all its activities, as a social responsibility.

7. Human Resource Management

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation.

Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to construction procedures etc. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance. Packages are inclusive of the proper incentives and take into account welfare measures for the employee and his family.

We seek to provide an environment that rewards entrepreneurial initiative and performance.

8. Culture and Values.

The Company has various sites located in different geographical locations and people belonging to different culture and values are employed in those sites.

Managing risk consistently among multi-cultural workforce is very critical.

The company has implemented a written code of conduct and ethics for the employees. These policies are disseminated on the Company's website and affirmations have been obtained from all concerned to ensure compliance.

Our core values:

- Pursuit of Excellence
- Industrial Promotion
- Workers' Welfare
- Productivity
- Safety
- Industrial Relations
- Environment Improvement

These are guiding parameters for all organization-wide initiatives.

Over the years, company has consistently followed the practice of adhering to certain cultures and values in internal and external management and every employee is made aware of such practices and the logic behind them. It is the company's belief that every employee is attuned to follow fair practices and uphold its fair name in every field they are involved.

Further, the Company's website, www.conartengineers.com provides an overview of the organization's direction, design, culture, processes, policies and practices. This site is also accessible to the public, which is updated periodically.

[5] Risks specific to the Company and the mitigation measures adopted :

(i) Business dynamics: Variance in the availability of raw material / products in various areas. Based on experience gained from the past and by following the market dynamics as they evolve, the Company is able to predict the demand during a particular period and accordingly procurement is planned and adjusted.

(ii) Business Operations Risks: These risks relate broadly to the company's organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organisation and management risks,
- Process and productivity risks,
- Business interruption risks,
- Profitability

Risk mitigation measures:

- The Company functions under a well defined organization structure.
- Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.

- Proper policies are followed in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned construction programmes.
- Effective steps are being taken to reduce cost of construction on a continuing basis taking various changing scenarios in the market.

(iii) Liquidity Risks:

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

Risk Mitigation Measures:

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.
- These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.
- Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.
- Cash management services are availed from Bank to avoid any loss of interest on collections.
- Exposures to Financial transactions are supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

(iv) Credit Risks:

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

Risk Mitigation Measures:

- Systems put in place for assessment of creditworthiness of dealers/customers.
- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.

(v) Logistics Risks:

- Use of outside transport sources.

Risk Mitigation Measures:

- 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/air are explored.
- Company has a dedicated transport group to handle all requirements relating to movement of goods, cement including capital equipment, as and when necessary with a well defined system of allocation of vehicles based on priorities and time aspects.

(vi) Market Risks / Industry Risks:

- Demand and Supply Risks
- Quantities, Qualities, Suppliers, lead time, interest rate risks
- Raw material rates
- Interruption in the supply of Raw material

Risk Mitigation Measures:

- Raw materials are procured from different sources at competitive prices.
- Alternative sources are developed for uninterrupted supply of raw materials.
- Demand and supply are external factors on which company has no control, but however the Company plans its requirements from the experience gained in the past and an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company's services.
- The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile, delivery mechanisms, technical inputs and advice on various aspects of de-bottlenecking procedures, enhancement of capacity utilisation in projects / sites, etc.
- Proper inventory control systems have been put in place.

(vii) Human Resource Risks:

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

Risk Mitigation Measures:

- Company has proper recruitment policy for recruitment of personnel at various levels in the organization.
- Proper appraisal system for revision of compensation on a periodical basis has been evolved and followed regularly.
- Employees are trained at regular intervals to upgrade their skills.
- Labour problems are obviated by negotiations and conciliation.
- Activities relating to the Welfare of employees are undertaken.
- Employees are encouraged to make suggestions and discuss any problems with their Superiors.

(viii) Disaster Risks:

- Natural risks like Fire, Floods, Earthquakes, etc.

Risk Mitigation Measures:

- The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
- Fire extinguishers have been placed at fire sensitive locations.
- 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.

(ix) System Risks:

- System capability
- System reliability
- Data integrity risks
- Coordinating and interfacing risks

Risk Mitigation Measures:

- System department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- 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.

x) Legal Risks:**These risks relate to the following:**

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

Risk Mitigation Measures:

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.
- The Company Management vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- Contracts are finalized as per the advice from legal professionals and Advocates.
- Insurance policies are audited to avoid any later disputes.
- Timely payment of insurance and full coverage of properties of the Company under insurance.
- Internal control systems for proper control on the operations of the Company and to detect any frauds.

DISCLAIMER CLAUSE:

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

For and on behalf of the Board of Directors of

CONART ENGINEERS LIMITED

Jitendra Sura
Managing Director

{2} RISK MANAGEMENT COMMITTEE CHARTER

1. Primary Objectives:-

The Risk Management Committee is a committee constituted by and accountable to the Board of Directors (or the 'Board') of CONART ENGINEERS LIMITED ('CEL' or 'the Company').

The primary responsibilities are to: -

- (i) Discuss with senior management, the Company's Enterprise Risk Management (ERM) and provide oversight as may be needed;
- (ii) Ensure it is apprised of the most significant risks along with the action management is taking and how it is ensuring effective ERM;
- (iii) Reviewing risk disclosure statements in any public documents or disclosures.

2. Composition:-

The Committee shall include at least three independent Directors. The Chairman of the Committee shall be designated by the Board.

3. Secretary:-

The Chief Financial Officer shall act as Secretary to the Committee.

4. Quorum:-

The quorum necessary for transacting business at a meeting of the Committee shall be two members or one-third of the members of the Risk Management Committee; whichever is greater.

5. Meetings:-

The Committee will normally meet prior to each regularly scheduled quarterly meeting of the Board or at such other time as deemed fit by it.

6. Authority:-

The Committee shall have free access to management and management information. The Committee, at its sole authority, may seek the advice of outside experts or consultants at the company's expense where judged necessary, to discharge its duties and responsibilities.

7. Specific Responsibilities / Scope of RMC:

- Review and recommend changes to the Risk Management Policy and / or associated frameworks, processes and practices of the Company.
- Be aware and concur with the Company's Risk Appetite including risk levels, if any, set for financial and operational risks.
- Ensure that the Company is taking appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities.

- Review the Company's portfolio view of risks and considering it against the Company's Risk Appetite.
- Being apprised of significant risk exposures of the Company and whether Management is responding appropriately to them.
- Coordinate its activities with the Audit Committee in instances where there is any overlap with audit activities. For example, internal or external audit issue relating to risk management policy or practice.
- The Risk Management Committee shall have access to any internal information necessary to fulfill its oversight role. The risk management committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other advisors.
- Perform other activities related to this Charter as requested by the Board of Directors or to address issues related to any significant subject within its term of reference.

8. Reporting:-

The Committee shall report on its activities, and summarize any recommendations; at each quarterly Board meeting. It shall also draft an appropriate report for inclusion in the Company's annual report.

9. Evaluation:-

- The Committee, if deemed necessary, may conduct a performance evaluation relative to its purpose, duties, responsibilities and effectiveness and recommend, any changes, it considers necessary for the approval of the Board of Directors.
- The Committee may conduct such evaluation and reviews at such intervals and in such manner as it deems appropriate.

10. Review of Risk Management Committee Charter:-

The adequacy of this charter shall be reviewed and reassessed by the Committee at such intervals as the Committee deems appropriate and recommendations, if any shall be made to the Board to update the same from time to time.

For and on behalf of the Board of Directors of
CONART ENGINEERS LIMITED

Jitendra Sura
Managing Director
