

***Risk Policy  
&  
Procedures***



**GAYATRI**

**GAYATRI SUGARS LIMITED**

[www.gayatrisugars.com](http://www.gayatrisugars.com)

## 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

### **(II) (C) Risk Management**

*i). The Board, its Audit Committee and its Executive Management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a Risk Management Policy or Strategy.*

*ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.*

It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of Risk Management for assessment of risks and determine the responses to these risks so as to minimise their adverse impact on the Organisation.

### **Risk Strategy:**

**GAYATRI SUGARS recognises** 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
- Reduce, 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.

The Gayatri Sugars Limited is a company committed to excellence.

Gayatri Sugars Limited is in the field of Manufacturing across integrated fields such as Sugar, Distillery and Co-Gen Power.

The product range of the company comprises:

- Manufacture & Marketing of Sugar
- Manufacture & Marketing of Rectified Spirit, IS and other By-Products like Oxygen Gas
- Captive power generation with state-of-the art and eco-friendly technology

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.

### **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 are classified into:

**Strategic:**

- Organizational Growth.
- Enhance our capabilities through technology.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating with dealer net work.
- Continuing to enhance our industry expertise.

**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

The Enterprise Wide Risk Management with focus on three key elements, viz:

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

**Risk Assessment:**

GAYATRI SUGARS has adopted a system based approach for risk management, with clear objectives of identification, evaluation, monitoring and minimisation of the identified risks. The Company has a Risk Management Committee for assessment and evaluation of the risks associated with the business through its risk document. The management periodically reviews the risk management framework to identify the major business risks as applicable to the Company and works out their mitigation strategy.

## **Risk Management & Risk Monitoring**

### **SUGAR INDUSTRY:**

The Indian sugar sector is highly cyclical in nature and is sensitive to Government policy and weather conditions. A typical sugar cycle lasts for 3-5 years – lower sugarcane and sugar production results in an increase in sugar prices and higher and prompt payments to farmers, which, in turn, leads to an increase in area under cane cultivation. An increase in cane acreage then leads to higher sugar production, decline in sugar prices, lower profitability for mills and consequently delayed payments to farmers, which, in turn, results in area under cane cultivation coming down. Sugar is consumed by every household and also major food Industries like, biscuits, chocolates, ice-creams and Pharmacy Industries. A large number of farmers draw their livelihood from sugarcane cultivation, the Central Government has always wanted to control prices in the open market, while the States want to ensure higher and higher prices for sugarcane farmers.

#### **1. The availability of cane:**

The major risks faced by sugar business are the availability of cane, regulatory risks, price of sugar and that of sugar cane. Sugar cane is the key raw material for sugar and any difficulty in getting cane at right time will have impact on the business. The key factors that influence cane availability are climatic condition, availability of cane harvesting labor and farmers opting for competitive crops.

**Gayatri Sugars** strongly believes that the availability of sugar cane is ensured by fostering good relationship with the cane growers. This is done by undertaking various measures in supporting them in cultivating cane besides making payment for their supplies in time. These are in the form of providing assistance in drip irrigation, mechanical and manual harvesting and improved cane varieties. The company also extends Financial Assistance, Subsidies for good quality seeds, arranging Fertilisers and pesticides on Credit basis, ensures timely cane payment to farmers, timely distribution of indents, proper surveys and incentivizing/encouraging the farmers to cultivate higher volumes of cane in the **Gayatri Sugar's** command area through various means.

#### **CANE AND SUPPORT TO FARMERS:**

One of the essential aspects of the sugar cane supply is the cane harvest and transport arrangement, the responsibility of which lies with sugar mills. Mills have to engage dedicated cane team for this arrangement. This is one of the major areas where **Gayatri Sugars** devoted substantial efforts so that harvesting is being done smoothly. Holding these groups and to make continuous crushing operation at optimum capacity is a great challenge. **Gayatri Sugars** has taken a lot of initiatives for cane development though most of the Factories in this region do not focus much on cane development due to generally good recovery arising from conducive climate, good soil condition and improved varieties of cane. The Company has initiated and implemented several programmes to build long term relationship with the farmers. The Company arranges improved varieties of Cane Seed and inputs like fertilizer, pesticides and micro nutrients through agencies.

For cane development, the growers need infrastructure like wells, bore wells and pump sets and **Gayatri Sugars** is providing/arranging Agriculture loans from Banks and Drip Irrigation system at a subsidized rates. The Company has developed a multipronged plan through infrastructure development, quality seed nursery programmers, inputs arrangements, mechanisation and technical infrastructure support to increase the availability of cane which is the basic raw material for the manufacture of sugar and life line of any Sugar Company. Further, the Company is organizing various programmes to educate the Farmers in latest techniques of Cane farming.

## **2. Regulated by the Central and State Governments**

The sugar industry is regulated by the Central and State Governments. Sugar cane price, known as FRP, is fixed by the Central Government well before the start of the season while the State Government fixes the State Advised Price (SAP), always significantly higher than FRP. The State Government controls the sugar cane command area while the Central Government regulates Exports and Imports. Gayatri Sugars is in close association with Indian Sugar Mills Association (ISMA) and South Indian Sugar Mills Association (SISMA) to understand the developments in the sector at the Country level, Regional level and State level.

The Central Government each year announces a country-wide MSP (Minimum Support Price) for cane, which is known as FRP (Fair and Remunerative Pricing), while State Governments decide their own Minimum Support Price (MSP) known as SAP (State Advised Prices). The sugar mills are expected to pay based on the SAP, wherever applicable, and FRP in States where the State Government does not declare its own prices. Given that a large proportion of rural farmers in the key cane growing states are dependent on the sugar cane sector, the SAP is largely politicised. On the trading side, the Import and Export of sugar is regulated by the Central Government, wherein Government permits are required for either importing or exporting sugar into and from the country.

Recently, the Government of India has announced partial de-control of the sugar industry based on the recommendation of the committee headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council. One of the decisions bringing relief to the industry is the dismantling of the release mechanism. Under this mechanism, the Government used to decide how much sugar mills can sell in the open market and in what time frame (quarterly, in 2012/13). To keep prices under check, the Government has since the last two quarters asked the mills to release more sugar in the market. As a result, the mills would often have to hold sugar stocks for long, which hurt the industry financially. The scrapping of the release mechanism is, therefore, a huge plus for the industry.

One of the other positive steps for both farmers and the industry is the removal of 10 per cent 'levy sugar', which deals with supply of sugar by the sugar industry to the Public Distribution System (PDS). Levy sugar for the PDS will now be procured by State Governments from the open market at prevailing market prices.

Another welcome move is that the Government has not increased any Excise Duty to fund the Government's additional subsidy burden arising out of its taking over the levy sugar burden from the industry.

The next important step for the Government, both the Central and States, would be to address sugarcane controls and rationalise the cane pricing in line with the globally accepted and successful cane price-sugar price linkage formula, which is also very strongly recommended by Dr.C.Rangarajan Committee. This step would help to reduce the cyclicity of sugar production and better enable the industry to pay for the sugarcane supplied by the farmers and consumers too would be benefitted with more stable sugar prices.

In September 2008, the Government announced a National Policy on bio-fuels which targets 20 per cent ethanol-blending by 2017. However, the ethanol blending programme, which calls for 5 per cent blending of ethanol with petrol, has taken off slowly, so far due to limited availability feedstock.

Reforms in the sugar sector will result in a win-win situation for the farmers, consumer, Government and **Gayatri Sugars** also.

### 3. Technological Obsolescence

***GAYATRI SUGARS's philosophy is to 'Modernise, Indigenise, Never Compromise on Technology'***

**Gayatri Sugars** strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.

Gayatri Sugars spent considerable amount of investment in Capital Goods bring efficiency in Steam saving resulting lesser consumption of Bagasse and also made capital investment in Evaporation and Dryer plant to reduce to ZERO pollution in Production of Rectified Spirit.

**Gayatri Sugars** policies also include a favourable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements

### 4. Revenue Concentration

High concentration in any single business segment exposes the company to the risks inherent in that segment. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks.

#### **BY PRODUCTS:**

##### **Molasses:**

Molasses is a thick syrup by-product from the processing of the sugarcane into sugar. In sugar factories, sugar is crystallised from a concentrated juice in three separate stages wherein each stage results in the production of a crystallised sugar fraction and a non-crystalline fraction or molasses fraction called molasses. Fermentation of molasses at distillery yields Extra Neutral Alcohol, Rectified Spirit and Ethanol.

**Distillery:**

The Distillery having capacity of 45KLPD contributes significantly to the revenue of the Company.

**Co-Generation of Power:**

The excess power generated by the Co-Gen Power Plant after consumption of in-house requirement of power is being transferred to the State Electricity Grid and contributes substantial Revenue to the Company.

**CO<sub>2</sub> Gas:**

The Raw CO<sub>2</sub> Gas produced in the process of manufacture of Ethanol or Rectified Spirit being captured and processed. The Revenue generated out of sale of CO<sub>2</sub> contributes to the Revenue of the Company.

The Revenues from these Bye Products increase the Volume in sales and thereby Profits of **Gayatri Sugars**. Concentration of revenue from any particular segment of industry is sought to be minimise over the long term by careful extension into other activities, particularly in areas the company has some basic advantage.

**5. Inflation and Cost Structure**

The cost of revenues consists primarily of raw materials including Sugar cane, Chemicals, Stores, Repairs and Maintenance and Finance Cost.

The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for procurement of Chemicals and stores etc.

**Gayatri Sugars** at organizational level, cost optimisation and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial model. The focus on these initiatives has inculcated across the organization the importance of cost reduction and control.

**6. Financial Reporting:**

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 critical and needs attention to follow these regulations. 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.

**Gayatri Sugars** 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 to address these issues.



Our preparation of financial statements in conformity with Indian GAAP and in accordance 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 prepares 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.

**Gayatri Sugars** believe that the accounting policies related to revenue recognition and Accounting for Direct and Indirect taxes are significant.

#### **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.

**Gayatri Sugars** 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.

#### **7. 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.

**Gayatri Group** 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.

**Gayatri Sugars** has established a compliance management system in the organisation and the Secretarial Department headed by a qualified and experienced Company Secretary 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.

#### **8. Environmental Risk Management:**

**Gayatri Sugars** endeavors to protect the environment in all its activities, as a social responsibility.

The legal exposure in this regard is when polluting materials are discharged into the environment by causing danger to fragile environmental surrounding is an offence.

**Gayatri Sugars** installed Evaporator and Dryer machinery at Distillery unit, so that the Distillery unit is a Zero pollution unit.

#### **9. Human Resource Management:**

**Gayatri Sugars** vision *is to achieve Organisational excellence through innovation”*

GAYATRI SUGARS's Human Resources Development (HRD) Department will add value to all its by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

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 manufacturing 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.

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

## **10. Risks specific to the Company and the mitigation measures adopted**

- 1) **Business dynamics:** Variance in the demand and supply of the product in various areas.

Based on experience gained from the past and by following the market dynamics as they evolve, GAYATRI SUGARS is able to predict the demand during a particular period and accordingly supply is planned and adjusted.

- 2) **Business Operations Risks:** These risks relate broadly to GAYATRI SUGARS organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:
- Organisation and management risks,
  - Production, 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 production programmes.
- Effective steps are being taken to reduce cost of production on a continuing basis taking various changing scenarios in the market.

### **3) Liquidity Risks:**

- Financial solvency and liquidity risks
- Borrowing limits

### **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.

#### **4) 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 credit worthiness 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.

#### **5) Logistics Risks:**

- Use of outside transport sources.

#### **6) 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 production and sales 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 products.
- 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 customer-plants etc.
- Proper inventory control systems have been put in place.

#### **7) 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.

### **8) Disaster Risks:**

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

### **Risk Mitigation Measures:**

- The properties of the company are insured under Industrial All Risk Policy 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.
- All employees are covered by Group Personal Accident Policy.

### **9) System Risks:**

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

### **Risk Mitigation Measures:**

- EDP 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.

### **10) 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 Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- 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.

**11 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.