RISK MANAGEMENT POLICY
**Preamble**

Every business is prone to various business risks whether financial or non-financial. The risks are varied in nature, and go hand in hand with the business opportunities, and it can never be assured that the Company operates in a totally risk free environment. Invariably no entity can operate or have the assurance of carrying on business in a totally risk free environment.

Even though Navneet Education Limited both as a long term business strategy as well as short term and in day to day operations continuously factors in the risk aspects by properly identifying, evaluating and mitigating the same, for the sake of good order and further now as mandated by Companies Act, 2013 as well as Clause 49 of the Listing Agreement dealing with corporate governance, the risk management policy is being formalized in writing for the benefit of all stakeholders.

The risk management policy can never be a stagnant document but calls for periodical review as business situations continuously change and there is always a need to revisit the policy document for amendment or modification to meet the changed requirement.

The scope of this document is to formalize a risk management policy (hereinafter referred to as “the Policy”), to identify, evaluate and minimize identifiable risks.

**Risk Management**

The term “risk” can be defined as a chance or probability of happening or incurrence of certain events or outcome or the non happening or non occurrence of the events or outcomes. Generally it is understood in a negative sense and hence its meaning includes hazard, possibility of bad consequences, loss, which could lead to loss or damage to the property, profit, cash flow or capital of a business.

The objective of risk management is not to consider the ways and means as to how the risk can be avoided or eliminated but to minimize the loss or damage arising from certain unexpected or undesirable events, the happening of which was only a certain probability. In nutshell, the aim is to take risk but mitigate the loss.

The process of risk management includes

a) Planning  
b) Decision making  
c) Organizing and  
d) Control
Planning involves

a) Investigation
b) Identification
c) Evaluation including classification, quantification, reporting – its frequency & impact

Decision making involves

a) Loss prevention or avoidance
b) Loss reduction
c) Loss absorption
d) Insurance or risk transfer

Organizing involves implementation of risk management techniques.

Control encompasses evaluation of result of application and documentation.

Risk Categories

The risks can be categorized as Business Risk and Non Business Risk. Business Risks are those which any business entity willingly assumes to create a competitive advantage for itself and add value to the stakeholders. The same could be its product market, technology, the produce design, credit risk, operational risk, macroeconomic risk resulting from economic cycles, monetary policies, etc. Business risks would also include financial risks to certain extent like interest rate movement or meeting the financial obligations.

The Non Business Risks are many a time beyond the control of the business entity and this would include fundamental shifts in the economy, political environment.

While risks can be categorized in many ways, the most common categorization is as under:

- Business Risk
- Market Risk
- Credit Risk
- Operational Risk

Brief description about each of the above risks is as under:

a) Business Risk

Business Risk, also referred to as Strategic Risk, is the current and prospective impact on earnings or capital arising from poor business decisions like entering a new business activity or sector without adequate consideration of risk-return trade-off, improper implementation of right decisions, or lack of responsiveness to industry changes. Reputation Risk is also another important Business Risk.
b) Market Risk

Market Risk refers to the possibility of incurring loss due to adverse movement of Exchange Rate or Interest Rate. Funding Liquidity Risk is also another Market Risk faced by any corporate.

c) Credit Risk

Credit Risk or the risk of default arises due to debtors’ inability or unwillingness to pay the dues.

d) Operational Risk

Operational Risk can be defined as risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal and compliance risk.

The risks associated with the Company are dealt in the following paragraphs:

6.1 Business Risks

a) The Risks

i) Strategic Risk –

Growth and profit are the normal goal of any business organization. However, expanding product portfolio with the sole aim of utilizing the existing infrastructure under the assumption of exploiting the fixed cost and therefore going in for low margin can adversely affect the long term profitability of the organization.

ii) Reputation Risk –

The Company’s reputation is perhaps its most valuable asset. Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions. This affects the institution’s ability to establish new relationships or services or continue servicing existing relationships. Reputation risk exposure is present throughout the organization.

iii) Technology Changes Risk –

The way the business is carried out is fast changing on account of advances in the technology. With introduction of extensive use of mobile, internet, connectivity etc. can impair certain business activities presently being carried out.
iv) Regulatory Changes Risk-

Since the Business of the Company is regulated, any changes in such regulations can have an impact in the form of additional costs in the matter of compliances to be incurred or restrictions of any specific activities which was hitherto permitted.

b) Mitigation Measures

i) Strategic Risk –

The risk of improper selection of new product or new business activity may be prevented by adopting systematic approach, as detailed below, for taking decision of entering new business activity.

a) Before introducing any new product/activity all risks involved have to be carefully identified and listed out by all stake-holders viz., the Product Head, Head of Operations, Head of Accounts, CIA etc.

b) Profitability of new product has to be carefully evaluated and findings of Break Even Analysis is given due consideration. While doing so assumptions and projections have to be examined to rule out the possibility of excessive optimism.

c) The company may lay down maximum gestation period for any new product. Exceptions could be made only in rarest of rare cases with the approval of Management Committee.

d) To mitigate operational risk, detailed process of handling new product has to be laid down well in advance and has to be examined by the Accounts and Audit departments to ensure its adequacy.

ii) Reputation Risk –

Preserving a strong reputation revolves around effectively communicating and building solid relationships with all stakeholders viz., shareholders, customers, employees and general public. Timely and accurate financial reports, compliance with all regulatory requirements, strong corporate governance and excellent customer service are important tools for mitigating this risk.

iii) Technology Changes Risk-

This risk should be mitigated by having a comprehensive Information Technology Policy covering all major aspects of IT like IT Security, Data Back-up, Disaster Recovery System etc. Thorough System Requirement Study (SRS) shall be conducted before selecting
the software for company’s operations. Services of external experts could be enlisted to meet all these requirements if the company does not have such expertise in-house. Further, selection of a reliable software vendor is also of great importance. Adequate access rights control shall also be ensured. Testing of software at the time of selection and periodic modifications by the vendor as well as conducting User Acceptance Test (UAT) by carefully selected company officials is also critical to mitigate this risk. Wherever possible standard software compliant with all basic regulatory requirements shall be selected.

iv) Regulatory Changes Risk-

Awareness of applicable laws, regulatory prescriptions and legal and regulatory implications of business practices among senior management is the basic requirement for mitigating this risk. As a rule, legal and regulatory implications of various acts of omissions and commissions need to be analyzed by independent legal and compliance officials not reporting to business heads. Any change in applicable statute and/or regulatory prescriptions should be incorporated in the SOP on on-going basis and transmitted across the company. Unlicensed software of any kind shall not be used in the company.

6.2 Market Risk

a) The Risks

i) Foreign Exchange Risk-

It is the risk of incurring loss on account of adverse movement of forex rates. The Company is exposed to the risk associated with its export business. Foreign exchange is the risk that a foreign currency may move in a direction which may be financially detrimental to the Company’s goal.

ii) Interest Rate Risk –

It is the risk of interest rate on company’s debt moving upwards and adversely impacting profitability.

iii) Funding Liquidity Risk –

It is inability of the Company to meet financial obligations as and when they arise.

b) Mitigation Measures

i) Foreign Exchange Risk –

An optimum mix of forward contract, option and keeping the exposure un-hedged should be used for mitigating Exchange Rate Risk. Leaving the risk un-hedged may be considered only when forex market is not volatile and to the extent of availability of natural hedge. While
forward contracts may be the best option during normal times, a part of the risk could be covered during volatile two-way movement of the forex market to take benefit of rates moving in favour of the company.

ii) Interest Rate Risk –

Interest Rate Swaps (IRS) may be selectively used to hedge interest rate risk as under, with the approval of Management Committee:

a. Pay Fixed Receive Floating IRS may be taken if the Committee is of the view that interest rates are likely to go up in future; and

b. Receive Fixed Pay Floating IRS may be taken if the Committee is of the view that interest rates are likely to go down in future.

However, care shall be taken not to enter in to exotic derivatives for short term gains which, apart from hedging the existing risk exposure of the company, could expose company to risks not existent in the books.

iii) Funding Liquidity Risk –

This risk may be mitigated by having in place buffer/stand-by credit facilities with the banks.

6.3 Credit Risk

a) The Risk

Risks of non-settlement of dues by customers resulting in bad and doubtful debts, adversely impacting the profitability of the company.

b) Mitigation Measures:

i) Meticulously carrying out KYC and Customer Due Diligence process at the time of inception of customer relationship;

ii) putting in place a robust Credit Process to assess the credit worthiness of customers at the time of sanction of credit limit and at regular intervals thereafter;

iii) well thought out delegation of credit sanction powers with due consideration for operational requirement and individual risk assessment capabilities;
iv) mandating examination of audited financials for credit limits above a certain threshold limit;

v) regular monitoring of amount outstanding vis-à-vis credit limit, delay in payment of dues lengthening credit cycle etc. which could detect Early Warning Signals (EWS) of impending default;

vi) appropriate recovery management and follow up;

vii) The ultimate responsibility for collection of dues shall rest with respective Business Heads.

6.4 Operational Risks

a) The Risks

i) Input Costs Risk -

The ever increasing raw material cost is one of the challenge for the Company which could directly affect the business and the profitability of the Company.

ii) Legal & Compliance Risk –

Legal Risk arises due to noncompliance with statutory responsibilities and/or adverse interpretation of and/or unenforceability of contractual provisions. Compliance Risk arises as a result of its failure to comply with laws, regulations, rules, guidelines applicable to company’s line of business. At times, these could be overlapping.

iii) People Risk –

The risk that people do not follow the company’s procedures, practices and/or rules”, i.e., that they “deviate” from expected behaviour. Such deviation can be broken down into two components: deliberate deviant behaviour (human fraud - internal) and non-deliberate deviant behaviour (human error). As cash and foreign currency notes form the stock in trade of the company it is vulnerable to embezzlement, theft, misappropriation and frauds.

iv) Systems Risk –

The risk arising out of complex or poorly designed computer based Information Technology systems either because they are unfit for the purpose or because they malfunction. This also includes data integrity risk due to poor software design or coordinating and interfacing risk. This could lead to frauds and IT Security failures.
v) **External Events Risk**
   External events – both expected and unexpected - can have a major impact on the company. This includes disruptive events like fire, flooding, earthquakes, terrorist actions, vandalism, power failures, etc.

*b) Mitigation Measures*

i) **Input Costs Risk**
   By setting up a policy to monitor the raw material costs at each level and by taking reasonable steps by the Management, the Company can keep the raw material cost to the minimum level.

ii) **Legal & Compliance Risk**
   Awareness of applicable laws, regulatory prescriptions and legal and regulatory implications of business practices among senior management is the basic requirement for mitigating this risk. As a rule, legal and regulatory implications of various acts of omissions and commissions need to be analyzed by independent legal and compliance officials not reporting to business heads. Any change in applicable statute and/or regulatory prescriptions should be incorporated in the SOP on on-going basis and transmitted across the company. Unlicensed software of any kind shall not be used in the company.

iii) **People Risk**
   The risks of human error and human fraud can only be minimized. They cannot be completely eliminated. The risk of human error may be minimized by adopting following measures:

   a) Institutionalizing the SOP by subjecting employees to periodical training programs, display of posters, ready to refer display cards etc;

   b) having robust internal audit system for ensuring that laid down processes are being followed at all levels and for timely detection of delinquencies;

   c) ensuring that audit findings are attended/rectified/implemented in a time-bound manner;

   d) adopting an efficient process for quick investigation and an efficient disciplinary process culminating in appropriate disciplinary action, ranging from issuing a cautionary letter to dismissal of erring employee, commensurate with the lapses;
e) giving Internal Auditors unhindered access to all places of business to conduct surprise checks;

f) dealing with non-adherence to SOP with quick and firm action.

iv) Systems Risk –

The system risk should be mitigated by having a comprehensive Information Technology Policy covering all major aspects of IT like IT Security, Data Back-up, Disaster Recovery System etc. Thorough System Requirement Study (SRS) shall be conducted before selecting the software for company’s operations. Services of external experts could be enlisted to meet all these requirements if the company does not have such expertise in-house. Further, selection of a reliable software vendor is also of great importance. Adequate access rights control shall also be ensured. Testing of software at the time of selection and periodic modifications by the vendor as well as conducting User Acceptance Test (UAT) by carefully selected company officials is also critical to mitigate this risk. Wherever possible standard software compliant with all basic regulatory requirements shall be selected.

v) External Events Risk –

The Company should have in place appropriate arrangements like data back-up, disaster recovery systems and procedures etc. to ensure that it can continue to function and meet its obligations in the event of an unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness. Against the monetary loss arising out of such events the company should evaluate cost and acquire proper insurance, wherever deemed necessary.

Basically the risk control strategies must consider the probability and consequence of the risks and focus on main risks through proper evaluation. The normal process amongst the stakeholders involves collection of information, brainstorming, prioritization and mitigation plans. The process of risk management would necessitate avoidance like change of the project plan on account of time, costs, scope, quality, etc. Mitigation i.e. reduction of the probability of adverse effect and taking early action to reduce the adverse risk factors, transferring or sharing the risk element say through proper insurance of the risk or through negotiation of warranties and guarantees, acceptance of the risk as certain risk which are not acute ones, cannot be eliminated but could be lived with like marginal overrun of costs.