



SOVEREIGN DIAMONDS LIMITED

RISK MANAGEMENT POLICY

Date of Issue: 06th February, 2016



RISK MANAGEMENT POLICY

A. INTRODUCTION:

Risk Management is a key aspect of the “Corporate Governance Principles and Code of Conduct” which aims to improve the governance practices across the Company’s activities. Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

The Board of Directors of Sovereign Diamonds Limited (‘Sovereign’) has adopted the following policy and procedures with regard to risk management as defined below. The Board may review and amend this policy from time to time.

B. DEFINITIONS:

- "Audit Committee" means Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013 and the Listing agreement.
- "Board of Directors" or “Board” in relation to a Company, means the collective body of Directors of the Company. [Section 2(10) of the Companies Act, 2013]
- "Policy" means the Risk Management Policy.
- “Risk Management” is the culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects within the corporate environment. It is the systematic way of protecting business resources and income against losses so that the objectives of the Group can be achieved without interruption.

C. PURPOSE:

Effective risk management is central to the continued growth and success of Sovereign.

This Risk Management Policy ensures that:

- Appropriate systems are in place to identify, to the extent reasonably practicable, each material risk that the Company faces in conducting its business;
- The potential consequences and likelihood of each identified risk are understood and appropriate limits are set to assist in managing exposure to risks;
- Responsibility is delegated to manage each identified risk and mitigate that risk where ever possible;
- Assurance is provided as to the effectiveness of the risk management system and risk controls; and

- The risk management system is regularly reviewed to determine whether adequate control measures are in place.

D. RISK & RISK CONTROLS

Risks specific to the Company are listed below. The explanation to risk and current mitigation measures are given below in the table:

Sr. No.	Risk	Explanation	Current Mitigation Measures
1.	Raw Material Price Volatility Risk	The Company, based on the availability and the prices, procures diamonds and gold from local sources. The Volatility in the Price is always a major Risk, as in case the material is procured at higher price and prices fall suddenly thereafter, impacts the business and operations.	a. Price advantage on a/c of Bulk negotiation b. Various Price Index / Movement report are Tracked c. Quotation of various vendors are compared and Deal Sheet is prepared before finalizing any order.
2.	Currency Volatility Risk	The Company exports finished Jewellery to foreign countries. The Company faces the risk of fluctuation of foreign exchange rate, timely receipt of sale proceeds from foreign customers.	a. Weekly Review on open Position and Hedging Decisions are made b. Opinion from external Forex Advising Agency are obtained c. Customers orders are thoroughly reviewed. d. Monthly review of Outstanding
3.	Business Operations Risks <ul style="list-style-type: none"> • Organization and management risks • Production, process and productivity risks • Business interruption risks • Profitability risks • Fraud • Government Policies 	Operational risk is the "risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". These risks relate broadly to the company's organization and management, such as planning, monitoring and reporting systems in the day-to-day management process namely: <ul style="list-style-type: none"> • Organization and management risks, • Production, process and productivity risks, • Business interruption risks, 	a. Well Defined Organization Structure is existing b. Flow of information is channelized properly c. Second Level of position in each department are created for uninterrupted flow of work. d. MIS system covering the entire operations and review is in place e. Appropriate stock levels are kept to ensure continuous Production f. Backup-Power Generator g. Appointed External Audit Agency to conduct the Internal Audit

		<ul style="list-style-type: none"> • Profitability risks • Fraud risk • Government Policies 	
4.	<p>Commercial Risk / Credit Risk</p> <ul style="list-style-type: none"> • Risk of non collectability of supplies given on Credit 	<p>Commercial risks refer to potential losses arising from the trading partners or the market. Commercial Risk are the Financial risk assumed by a seller when extending credit.</p>	<ul style="list-style-type: none"> a. Credit Worthiness of Customer are checked before supplying. b. Credit Terms (Period & Amount) are fixed and adhered c. All Customers Orders are thoroughly review and approved at HO d. Deviations allowed only after special approval from HOD/Mgmt. e. Monthly review on customer outstanding f. All possible efforts including legal recourse are applied to collect overdue outstanding's.
5.	<p>Market Risks / Industry Risks / Business Dynamic Risks</p> <ul style="list-style-type: none"> • Demand & Supply Risk • Quantities, Qualities, Suppliers, lead time risks • Interruption in the supply of Raw material. • Competitors Strategy, Alternate products 	<p>These Include</p> <ul style="list-style-type: none"> • Demand and Supply Risks • Quantities, Qualities, Suppliers, lead time risks • Raw material rates • Interruption in the supply of Raw material • Competitors Strategy, Alternate products 	<ul style="list-style-type: none"> a. Multiple sources of RM Procurement b. Alternative sources are developed for uninterrupted supply c. Company plans its production and sales from the experience gained in the past and existing market trends d. Proper inventory control systems have been put in place e. The Company tries to reduce the gap between demand and supply.
6.	<p>Liquidity Risks</p> <ul style="list-style-type: none"> • Financial Solvency Risk • Cash Management Risk • Borrowing Limits 	<p>Liquidity risks includes :</p> <ul style="list-style-type: none"> • Financial Solvency and liquidity risks • Borrowing limits • Cash management risks 	<ul style="list-style-type: none"> a. Proper system of Financial Planning and monthly review. b. Daily, Monthly Cash Flows are Tracked c. Cash management services are availed from Bank to avoid any loss of interest on collections d. Sufficient Bank Arrangements are in place for Working Capital requirement e. Exposure to Foreign Exchange transactions are supported by LCs and suitable hedging

			policy.
7.	Logistic Risks <ul style="list-style-type: none"> • Risk of interruption in supplies for dependency on outside transport arrangements 	It includes dependency of company on outside transport services for movement of its supplies and finished goods.	a.Sourcing of committed and dedicated service providers b.Exploring possibility of an in-house logistic mechanism if the situation demands. c.Possibilities to optimize the operations are explored. d.Comprehensive transit risk insurance coverage for all incoming and outgoing goods across the organization. e.Yearly contracts with Transporters are in place
8.	Human Resource Risks <ul style="list-style-type: none"> • Employee Turnover Risk • Unrest, Strike, Lock-out Risk 	Human Resource risks includes <ul style="list-style-type: none"> • Employee Turnover Risks, involving replacement risks, training risks, skill risks, etc. • Unrest Risks due to Strikes and Lockouts. 	a.Strong HR Department to maintain excellent and cordial relations at all levels of employment b.Proper recruitment policy, for personnel at various level c.Proper appraisal system to give yearly increment is in place d.Employees are trained at regular intervals to upgrade their skills e.Labor problems are obviated by negotiations and conciliation. f. Activities relating to the Welfare of employees are undertaken
9.	Disaster Risks <ul style="list-style-type: none"> • Fire, Floods, Earthquakes, etc 	Disaster Risks are the risks caused from Natural risks like fire, Floods, Earthquakes, etc.	a.The property of the company is insured against natural risks, like fire, flood, earthquakes, etc. b.Fire Hydrants have been installed at all manufacturing locations c.First aid training is given to watch and ward staff and safety personnel d.Workmen of the company are covered under ESI, EPF, etc., to serve the welfare of the workmen e.Engaging professional Risks Assessing Advisors who conduct periodical audit / review and suggest risks

			<p>improvement measures from time to time.</p> <p>f. The company has obtained appropriate Insurance coverages like Loss of Profit Policy to covers loss of Gross Profit on account of interruption of business, consequent upon Material Damage to property due to Fire or any other insured peril under the Standard Fire and Special Perils Policy. List of all policies undertaken / in process of taking cover are enclosed as Annexure I</p>
10.	<p>System Risks</p> <ul style="list-style-type: none"> • System Integrity / System Capability • Coordinating and interfacing risks • Risk of Obsolescence • Risk of loss of data 	<p>System risks are the risk of failure of the Data Processing & Management. The risk relates to:</p> <ul style="list-style-type: none"> • System capability • System reliability • Data integrity risks • Coordinating and interfacing risks • Risk of Obsolescence • Risk of loss of data 	<p>a. EDP department maintains repairs and upgrades the systems on continuous basis</p> <p>b. Server Backups are taken on daily basis and are stored at separate location</p> <p>c. Password protection is provided at different levels to ensure data integrity</p> <p>d. Licensed software is being used in the systems.</p> <p>e. Company ensures “Data Security”, by having access control</p> <p>f. Business continuity is ensured after a major disruption and adoption of a Disaster Recovery Plan</p>
11.	<p>Legal Risks</p> <ul style="list-style-type: none"> • Contract Risks • Contractual Liability • Frauds • Judicial Risks • Insurance Risks • Patent, Design and Copyright • Infringement Risks • Change in Government Policies affecting business 	<p>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. These risks relate to the following:</p> <ul style="list-style-type: none"> • Contract Risks • Contractual Liability • Frauds 	<p>a. Centralized team of professionals to ensure adherence to all contractual obligations and commitments</p> <p>b. The Company has established a compliance management system Secretary of the Company ensures the submission of quarterly compliance reports by functional heads for placing the same before the Board supported by periodical Secretarial Audit Reports by</p>

		<ul style="list-style-type: none"> • Judicial Risks • Insurance Risks • Patent, Design and Copyright Infringement Risks • Change in Government Policies affecting business 	Practicing Company Secretaries.
12.	Health, Safety & Environment Risk	The business is always prone to any kind of accident. HSE management involves managing, controlling and handling all aspects of health, safety and the environment.	<p>a. Company has made well defined safety manual, which details safety measures for each application and processes</p> <p>b. Periodically mock training are given to employees for Onsite emergency plans, Emergency Fighting Plans, Fire Fighting Facilities available and MSDS</p> <p>c. Risk Register is maintained by the company which contains database of risks that face an organization at any onetime.</p> <p>d. Regular Review of Policies are done and discussed with the BOD</p>

E. PROCESS FRAMEWORK FOR RISK IDENTIFICATION & CONTROL:

Risk Identification & communication is an integral part of the risk management process. It's an interactive process for exchanging information and opinions with risk managers. Timely identification and communication of Risks are vital for controlling the risk and deploy mitigation measures. To achieve the expected outcome from Risk Management, involvement-of, risk identification-by and communication-from; all employees are very essential.

Risk management Policy and Guidelines will be shared with all employees. Risk registers needs to be maintained at all identified locations. Any and all risk incidences needs to be entered in Risk Register and needs to be promptly communicated to Managing Director / Chief Executive Officer / Compliance Officer.

F. ACCOUNTABILITIES:

The Board of Directors shall do the task of overseeing the deployment of Risk Management Framework.



G. DISCLOSURE IN THE BOARD'S REPORT:

The Board of Directors shall include a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

H. INTENDED BENEFITS

- Spread Risk Management Knowledge and Awareness, Risk culture across SBU's
- Help senior management, Board, BU's, executives to focus on main risk and mitigation
- Provides systematic review, quarterly reports to monitor progress.
- Can be integrated into decision making process (Capital Allocation, Portfolio Building, Performance Management), in order to increase shareholder values



ANNEXURE I - INSURANCES

Sr. No.	Type of Policy Cover
1.	Stock Policy
2.	Electronic Equipment Policy
3.	Furniture Fix. & Fiting Policy
4.	Plant, Machinery & Building Policy
5.	Transit Insurance Policy
6.	Duty Policy for Tanks
7.	Group Personal Accident
8.	Public Liability Insurance Policy
9.	Commercial Crime Policy
10.	Motor Vehicle Policy
11.	Directors & Officers Policy
12.	Loss of profit Policy
13.	Gratuity Insurance
14.	Office package Policy