Risk Management Policy

Company Profile:

Techno Electric & Engineering Company Limited (“TEECL”) was established in 1963 with a mission to provide comprehensive Engineering, Procurement and Construction (EPC) services to core sector industries in India. Then the Company had gone through amalgamation in the year 2010 and 2018. The Company has assumed a leadership position on the back of association with state-of-the-art technology manufacturers and high standards of quality management, competent human resources and resourceful financing. Apart from EPC, we are at asset ownership and operations and maintenance services in the three industry segments of generation, transmission and distribution and spread across India and abroad. We develop, own and operate transmission, distribution and generation businesses that improve lives through reliable and accessible electricity, promoting economic growth and social wellbeing and making the communities where we work better.

Background:

The Securities and Exchange Board of India (“the SEBI”) has notified SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI (LODR) Regulations”) vide notification no. SEBI/LAD/NRO/GN/2015-16/013, dated 2nd September, 2015, which was effective from 2nd December, 2015 and in accordance with Section 134(3)(n) of the Companies Act, 2013, a company is required to 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 and further as per Regulation 17 of the SEBI (LODR) Regulations, the board of directors shall be responsible for framing, implementing and monitoring the Risk management plan for the listed entity.

Accordingly, to mitigate and manage risk at TEECL (hereinafter referred to as the “Company”), the Company has formed the policy (the “Risk management Policy”) for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in the operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.

TEECL is an ISO 9001: 2015, ISO 14001: 2015 ISO 45001: 2018 certified construction company engaged in execution of infrastructure sector projects like highways, elevated roads & bridges and Water works. The company also executes other civil construction projects like extension & grading of runways, railways & land development.

Risk Management Policy Statement:

TEECL is exposed to a number of uncertainties, which is inherent for the Infrastructure Construction sector that it operates in. The volatility of the Infrastructure Construction sector affects the financial and non-financial results of the business. TEECL has developed Risk Management Policy to increase confidence in the achievement of organization's objectives and to remain a competitive and sustainable organization and enhance its operational effectiveness.

The policy statement is as given below:

1. To establish an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks.
2. To provide clear and strong basis for informed decision making at all levels of the organization.
3. To continually strive towards strengthening the Risk Management System through continuous learning and improvement and to achieve the objectives of this policy through proper implementation and monitoring.
4. To ensure that new emerging risks are identified and managed effectively.
5. To put in place systems for effective implementation for achievement of policy objectives through systematic monitoring and effecting course corrections from time to time.

Objectives of the Policy:

The objective of Risk Management Policy at TEECL is to preserve shareholder value to the extent practically feasible and to ensure sustainable business growth with stability by identifying and mitigating major operating, and external business risk. In order to achieve the key business objectives, the policy establishes a structured and disciplined approach to Risk Management, including the development of the Risk Register, in order to guide decisions on risk related issues. The specific objectives of the Risk Management Policy are:

1. To ensure that all the current and future material risk exposures of the company are identified, assessed, mitigated, monitored and reported.
2. To establish a framework for the company's risk management process and to ensure companywide implementation.
3. To ensure systematic and uniform assessment of risks related with construction projects.
4. To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices.
5. To assure business growth with financial stability.

The effectiveness of Risk Mitigation plans shall be ensured through proper monitoring, evaluation of outcomes of mitigation plans and to look for the scope of its applicability in other areas in order to achieve overall objective of this policy.

To achieve these objectives, TEECL shall adhere to the following core principles:

1. Effective Risk Management Process: The Risk Management Team constituted by the Board shall have the overall responsibility to ensure effective risk management process within the company.
2. Everyone's commitment: Every function/ department/ office in the organization shall work in coordination to ensure effective implementation of this risk management policy.
3. Proactive Leadership: Risk identification (including identification of the risk of lost opportunities), risk assessment, risk response and risk monitoring are ongoing activities and shall form an integral part of the company's operations, management and Decision- Making process. All the identified risks shall be updated in the central repository.
4. Risk Culture: Informed and consistent risk related decisions shall be taken; non- compliant behaviors shall not be tolerated and risk management shall be dealt professionally.
5. Transparency and Compliance: The risk management activities along with the most Significant risks shall be reported and the material failures in mitigation measures shall be escalated through reporting line to the relevant levels of organization structure.
6. Result Evaluation: To assess the effectiveness of the Risk Management Policy and its implementation and need for improvement if any.

Scope and Applicability of the Policy:

The policy guidelines are devised in context of the organization's growth objectives, business Profile envisaged and new business endeavors including new projects that may be necessary to achieve these goals and the emerging global standards and leading practices amongst comparable organizations.

The Scope of the Policy shall cover:
- All functions and departments of TEECL across all Projects.
- All events, both external and internal which shall have an impact on the business objectives of the organization.

Applicability of the Policy: The Risk Management Policy is applicable to the Corporate Office & Liaison Offices and all Construction Projects of TEECL.

Definitions of Risk:

Risk:

Risk is the effect of uncertainty on objectives. It is expressed as a combination of the probability of an event and its consequence. Events with a negative impact represent risks, which can prevent value creation or erode existing value.

Risk Management:

Risk management is a set of coordinated activities to direct and control an organization with regard to risk. Risk management includes risk assessment, risk treatment, risk acceptance and risk communication.

Risk Identification:

Risk identification is the process of identifying the organization's exposure to uncertainty.

Risk Assessment:

Risk assessment is the overall process of risk analysis and risk evaluation. It allows an entity to consider the extent to which potential risk events have an impact on achievement of objectives.

Risk Treatment:

Risk treatment determines the way to deal with risk. Various mechanisms to treat risk are:

I. Risk avoidance/ termination – decision not to become involved in, or action to withdraw from, a risk situation.
II. Risk transfer –sharing with another party the burden of loss or benefit or gain, for a risk.
III. Risk reduction/ mitigation – actions taken to lessen the probability, negative consequence, or both, associated with a risk.
IV. Risk acceptance/ retention–the acceptance of the burden of loss or benefit or gain, for a risk.

Risk Appetite:

Risk Appetite is the broad-based amount of risk a company or other entity is willing to accept in pursuit of its business objectives and goals.

Risk Governance:

A well-defined risk governance structure serves to communicate the approach of risk management throughout the organization by establishing clear allocation of roles and responsibilities for the management of risks on a day to day basis. In order to develop and implement a Risk Management framework, a Risk Assessment Team to be supported by Risk Cell has been constituted. Risk Assessment Team shall identify the key risks and report them to the Risk Management Team which shall ensure that risk management activities are undertaken as per this policy. The main objective of the Risk Assessment Team shall be to provide a wide view of key risks within the organization to the Risk Management Team. The Risk Assessment Team shall comprise of Chief Risk Officer (CRO) and heads of key departments. The Risk Management Team comprises the following mentioned below:

- Technical Head /Official
- Accounts Head /Official
- Mechanical Head /Official
- HR Head /Official

The Risk Management team has the key role of aligning the strategic objectives with the organization's operations in order to achieve intended outcomes.

Role and Responsibilities of the Risk Management team:

- Assist the board in fulfilling its corporate governance in overseeing the responsibilities with regard to the identification, evaluation and mitigation of operational, strategic and external environment risks.
- Monitor, approve and review the risk policies/ plans and associated practices of the company.
- Review and approve risk disclosure statements in any public documents or disclosures.
- Carry out any other function as required by the provisions of the Companies Act, 2013, Listing agreement and Corporate Governance Guidelines issued by DPE.
- Ensure that appropriate systems are in place to manage the identified risks, so that the organizations assets and reputation are suitably protected.
- Ensure that responsibility and authorities are clearly defined and adequate resources are assigned to implement the Risk Management Policy.
- Review the reports from the Risk Assessment Team and take remedial action.

Risk Assessment Team:

The Risk Assessment Team shall have the key role of identifying the key risks, suggest mitigation measures, monitoring and supervising the implementation of the Risk Management Policy and maintain wide view of the key risks faced by the organization.

Role and Responsibilities of Risk Assessment Team:

- Identify, evaluate and assess the key risks anticipated for the organization and suggest mitigation measures to the risk coordinators.
- Ensure that effective risk mitigation plans are in place and the results are evaluated and acted upon.
- Report the key risks faced by the organization and their mitigation plans to the Risk Management Team.
- Appoint the Risk Coordinators for the identified risks.
- Ensure that the Risk Management Team is informed about any new/emerging risks faced by the organization in case of exigencies/emergent conditions.
- Assist the Risk Management Team in overseeing and monitoring the development and implementation of the Risk Management Policy.
- Prioritize the risks reported according to their risk ratings and assist the risk management Team in decision making for risk management responses for identified key risks.

Risk Coordinators:

The Risk Coordinators shall be the nominated representative not below the rank of Manager of respective departments.
The Risk Coordinators shall have the key role of reviewing and assessing the risks identified by the associated department/project heads and to develop and monitor the mitigation measures for the identified risks.

Role and Responsibilities of Risk Coordinators:
Review and assess the risks reported by the department heads.

- Identify any new risks relevant to their respective areas.
- Develop mitigation measures and action plan for all the identified risks.
- Ensure implementation of mitigation plans by coordinating with respective departments.
- Provide status of risks and mitigation measures taken, to the CRO for reporting in the Risk Assessment Team.

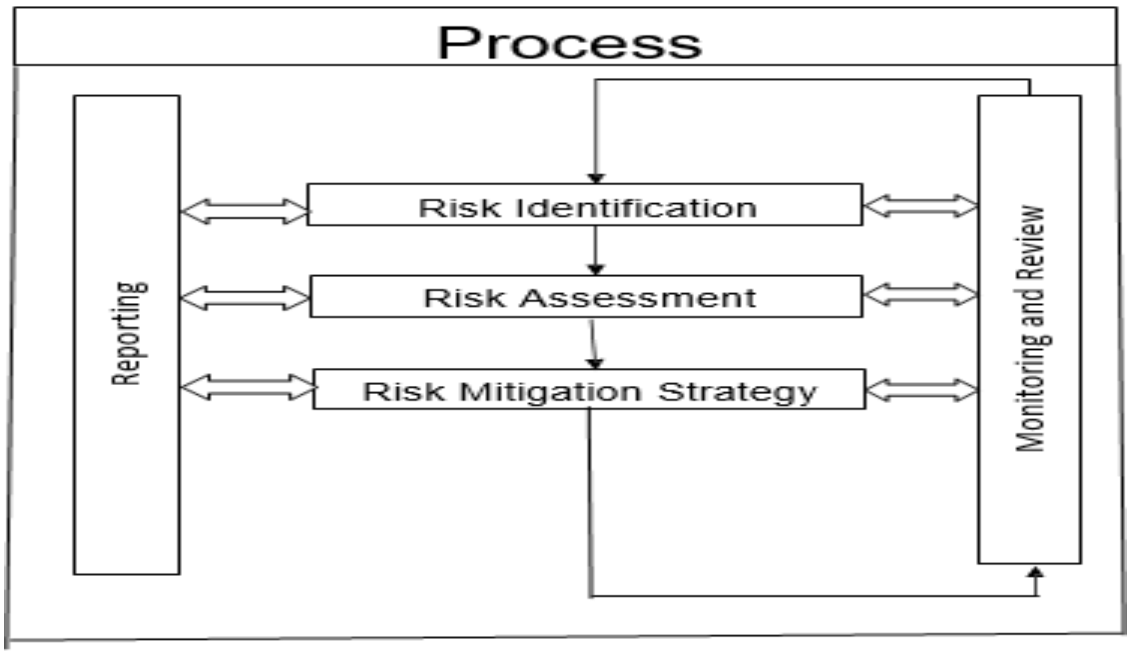
Risk Management Approach:

Risk Management is the process which shall enable the organization to identify, assess and treat risks. It is the responsibility of everyone in the organization viz. Board, Management Team and all TEECL personnel. Risk Management applies to all functions, departments and operations within the organization.

The primary objective(s) of establishing a Risk Management Process is to ensure that:

- Risks faced by the organization shall be identified and recorded in the risk register, enabling the top management to take a comprehensive view of the same
- Risks identified shall be assessed, mitigated, monitored and reviewed on an ongoing basis.

The Risk Management Process is depicted below:



Risk Identification:

Risk identification sets out to identify an organization's exposure to uncertainty. This requires an in-depth knowledge of the organization, the market in which it operates, the economic, legal, regulatory, social, political, technological and cultural environment in which it exists, as well as the development of a sound understanding of its strategic and operational objectives, including factors critical to its success and the threats and opportunities related to the achievement of these objectives.

Risk identification shall be approached in a methodical way to ensure that all significant activities within the organization have been identified and all the risks flowing from these activities defined.

The following methodologies can be used to identify risks:

- Brainstorming
- Surveys /Interviews/Working groups
- Experiential or Documented Knowledge
- Risk Lists - Lessons Learned
- Historical risk event information

Risk Categorization:

Risk management is crucial for EPC (Engineering, Procurement, and Construction) companies in India due to the complex, large-scale, and capital-intensive nature of projects. Risk management for EPC companies involves addressing unique challenges in a complex regulatory and business environment. Risk management involves systematic identification, assessment, and mitigation of various project risks to ensure timely, cost-effective, and quality project delivery and monitoring risks across the project lifecycle.

EPC projects in India face a wide range of risks across their lifecycle. These can be broadly categorized as:

1) Regulatory and Legal Risks:

i) **Compliance Risks**: India's multi-layer complex and often changing regulatory framework creates compliance challenges across environmental clearances, safety, legal requirements, labor laws, GST implications, and industry-specific requirements. Non-compliance can lead to fines and project delays.

ii) **Changing Policies:** Frequent changes in government policies, tax regulations, and evolving environmental norms require constant attention.

iii) **Land Acquisition:** Land acquisition and rehabilitation issues can cause significant delays.

2) Project-Specific Risks:

i) **Scope Creep:** Changes or expansions to project scope without proper cost/time adjustments.

ii) **Quality Risks:** Ensuring consistent quality throughout design and construction phases is critical. Poor-quality materials or supply chain issues can compromise project quality. Non-compliance can result in project suspension and criminal liability.

iii) **Safety Risks:** High-risk construction activities, leading to accidents, injuries, and fatalities if not managed effectively.

iv) **Geotechnical Risks:** Unexpected ground conditions, soil instability, or subsurface challenges.

3) **Financial Risks:**

i) **Cost Overruns:** Aggressive bidding on lowest cost tenders often leads to thin margins, increasing the risk of cost overruns due to material price fluctuations, unforeseen expenses, and inaccurate cost estimations, can lead to significant budget exceedances.

ii) **Payment Disputes:** Delays in client payments or disputes over claims can strain cash flow, especially in public sector contracts.

iii) **Currency and Market Fluctuations:** Volatility in material costs or currency exchange rates can impact procurement budgets, especially for imported equipment or foreign suppliers.

4) **Resource Risks:** Risks often arise from inadequate resource management, including labor, materials, and machinery.

5) **Operational Risks:**

i) **Complex Supply Chains:** Managing numerous suppliers and subcontractors, procurement challenges and supply chain disruptions impact project timelines and costs.

ii) **Workforce Strikes or Shortages:** Lack of skilled labor in the industry, impacting project timelines and quality which is a frequent issue for large sites.

iii) **Stakeholder Disagreements:** Misunderstandings and rework due to poor communication among diverse stakeholders (clients, contractors, suppliers, consultants, regulators).

iv) **Equipment Failure or Delays:** Especially in remote or underdeveloped areas due to logistical challenges.

6) **Contractual Risks:**

i) **Ambiguous Contract Clauses:** Ambiguities in contracts, scope variations or unfair risk allocation can lead to disputes, especially in government tenders.

ii) **Dispute Resolution Issues:** Inconsistent enforcement of arbitration or legal recourse.

7) **Schedule Risks:**

i) **Project Delays:** Regulatory hurdles (permits, approvals) or supply chain disruptions, workforce shortages, design changes, and adverse weather conditions can cause project delays.

ii) **Subcontractor Delays:** Success of EPC project is heavily reliant on the performance of subcontractors, who may not always deliver on time as per expectation.

8) **Technical Risks:**

i) **Design Flaws:** Inadequate, inaccurate or ambiguities in design, insufficient engineering, or client-driven changes during the project leading to rework and cost escalations at various levels.

ii) **Technology Integration:** Challenges in seamlessly integrating various design, procurement, construction, and project management tools.

9) **Execution Risk:** Risk of loss resulting from inadequate or failed processes of execution, people and information systems.

10) **Social Risks:**

i) **Community Opposition:** Especially in rural and tribal areas.

11) **Environmental Risks:**

i) **Natural Disasters:** Unforeseen events like floods, earthquakes, cyclones or extreme weather conditions causing damage and delay of project.

ii) **Environmental Regulations:** Project stoppage due to environmental non-compliance.

12) **External Risks:**

i) **Economic and Market Conditions:** Price volatility of raw materials, inflation, interest rate fluctuations, and overall economic downturns.

ii) **Geopolitical Instability:** Conflicts, policy changes, or trade restrictions that can impact supply chains and project viability.

iii) **Political Risks:** Changes in government policies, land acquisition challenges, and local political interference.

iv) **Sustainability Pressures:** Increasing focus on ESG (Environmental, Social, and Governance) standards requires sustainable practices.

Risk Assessment:

Risk assessment allows an entity to consider the extent to which potential events have an impact on achievement of objectives. The risks identified shall be evaluated on an appropriate risk rating for each risk identified as per specified criteria.

Risk Mitigation Strategy:

There are four common strategies for treating risk. There is no single "best" response strategy and each risk must be considered on its own merits. Some risks may require a combination of strategies and multiple responses, whereas others may need only one strategy with a single response.

- Risk avoidance/ termination: This involves doing things differently and thus removing the risk. This is particularly important in terms of project risk, market risk or customer risk but often wishful thinking in terms of the strategic risks.

- Risk reduction/ mitigation: Reduce or Treat the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk but to bring the risk to an acceptable level by taking action to control it in some way through either:

- Risk acceptance/ retention: Accept and tolerate the risk. Risk Management doesn't necessarily mean risk reduction and there could be certain risks within the organization that it might be willing to accept and continue with its operational activities. The organization shall tolerate such risks that are considered to be acceptable, for example

A risk that cannot be mitigated cost effectively. A risk that opens up greater benefits than loss. Uncontrollable risk.

The Risk Assessment Team shall take a decision to tolerate a risk as a mitigation measure, and when such a decision is taken, the rationale behind it shall be fully documented. In addition, the risk shall continue to be monitored and contingency plans shall be in place in the event of the risk occurring.

- **Risk Transfer**: Transfer some aspects of the risk to a third party. Examples of risk transfer include insurance and hedging. This option is particularly good for mitigating financial risks or risks to assets.

a) The following aspects shall be considered for the transfer of identified risks to the transferring party:

- Internal processes of the organization for managing and mitigating the identified risks.
- Cost benefits analysis of transferring the risk to the third party

b) Insurance can be used as one of the instruments for transferring risk.

Risk Mitigation Process:

The risks are identified and if the risk treatment mechanism selected is risk mitigation or risk transfer, the next step shall be to review and revise existing controls to mitigate the risks falling beyond the risk appetite and also to identify new and improved controls.

Identify Controls:

New control activities are designed in addition to existing controls post assessment of risk exposure at current level to ensure that the risks are within the accepted risk appetite.

Control activities are categorized into Preventive or Detective on the basis of their nature and timing:

- **Preventive Controls** – focus on preventing an error or irregularity.
- **Detective Controls** – focus on identifying when an error or irregularity has occurred. It also focuses on recovering from, repairing the damage from, or minimizing the cost of an error or irregularity.

Evaluate Controls:

The controls identified for each risk event shall be evaluated to assess their effectiveness in mitigating the risks falling beyond the risk appetite.

Implement Controls:

It is the responsibility of the Risk Assessment Team to ensure that the risk mitigation plan for each function/department is in place and is reviewed regularly.

Risk Monitoring:

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risks with their mitigation measures shall be updated on a regular basis.

Risk Review:

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place. Regular audits of policy and standards compliance shall be carried out and standards performance reviewed to identify opportunities for improvement. It shall be remembered that organization is dynamic and operate in dynamic environment. Changes in the organization and the environment in which it operates must be identified and appropriate modifications made to risk management practices. The monitoring process shall provide assurance that there are appropriate controls in place for the organization's activities and that the procedures are properly understood and followed.

The Risk Coordinators along with project heads shall review the progress on the actions agreed to mitigate the risk and make an assessment of the current level of risk including:

- Establishing whether actions have been completed or are on target for completion.
- Report the status of implementation of mitigation plans to the CRO. Risk monitoring and review process shall also determine whether:
    - The measures adopted resulted in what was intended.
    - The procedures adopted and information gathered for undertaking the assessment was appropriate.
- The acceptability of each identified risk and their mitigation plan shall be assessed and risks shall then be ranked to identify key risks for the organization.
- Proposed actions to eliminate, reduce or manage each material risk shall be considered and agreed.
- Responsibilities for the mitigation measures for key risks management of each risk shall be assigned to appropriate departmental heads.
- The measures adopted resulted in what was intended.
- The procedures adopted and information gathered for undertaking the assessment was appropriate.
- The acceptability of each identified risk and their mitigation plan shall be assessed and risks shall then be ranked to identify key risks for the organization.
- Proposed actions to eliminate, reduce or manage each material risk shall be considered and agreed.
- Responsibilities for the mitigation measures for key risks management of each risk shall be assigned to appropriate departmental heads.

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