

Maharashtra Natural Gas Limited

RISK POLICY AND PROCEDURE

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.

Clause n of Section 134 (3) of the Companies Act, 2013 states as under:

“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. Shall be attached to statements laid before a company in general meeting, a report by its Board of Directors.”

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 Public Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimize their adverse impact on the organization.

Risk Strategy:

MNGL recognizes 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.

Maharashtra Natural Gas Limited (MNGL) is a Joint Venture Company (JVC) of GAIL (India) Limited and Bharat Petroleum Corporation Limited and has been incorporated to take up the City Gas Distribution (CGD) activities in the cities of Pune, Pimpri-Chinchwad, Chakan and Talegaon has been authorized by MoP&NG and subsequently by PNGRB for implementation of CGD.

MNGL is engaged in the implementation of CGD projects and is expeditiously pursuing the project implementation in the mentioned areas. In the process, MNGL has set up adequate no. of CNG stations (29 CNG stations) and has laid considerable Steel and MDPE Pipeline network infrastructure to supply the natural gas to the various customers in the city.

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 can be classified into

Strategic:

- Organizational Growth.
- Comprehensive range of products.
- 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 alliance.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality services.
- 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 to the Business as a whole arising out of various risk exposures

MNGL 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 Assessment and Minimization Committee with CM (F&A) and the Company Secretary as members. The Committee will submit its periodical report to the Functional directors and subsequently to the Board about the measures taken for mitigation of Risk in the organization.

We consider activities at all levels of the organization 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 analyzed, 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 on the basis of available data and information and accordingly appropriate risk treatments worked out in the following areas:

1. Economic Environment and Market conditions

Our customers concentrated in Domestic, Commercial, Industrial and automobile usages which may be classified as PNG & CNG customers. Economic slowdowns or factors that affect the economic health of our customers' countries and the said industries may increase risk to our revenue growth.

Strategically, we seek to continuously expand the customer base to maximize the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of our record of satisfactory performance in our earlier dealings. The efforts to enhance quality of products and upgrading their performance parameters are aimed at deriving optimum value from the existing customer base and targeting a larger customer profile. Historically, the strength of our relationships has resulted in significant recurring revenue from existing customers.

To counter pricing pressures, the Company has been increasing operational efficiency and continued to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.

2. Revenue Concentration

High concentration in any single business segment exposes the company to the risks inherent in that segment. We have adopted prudent norms based on which we

monitor and prevent undesirable concentration in a geography, industry, or customer. 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. Concentration of revenue from any particular segment of industry is sought to be minimized over the long term by careful extension into other activities, particularly in areas the company has some basic advantage such as availability of land, technical or manpower resources.

3. Inflation and Cost Structure

The cost of revenues consists primarily of Natural Gas. The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for procurement of long delivery and strategic raw materials and stores and those amenable to just-in-time inventories.

At organizational level, cost optimization 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 the importance of cost reduction and control across the organization.

4. Technological Obsolescence

The company 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. Established contacts with leaders in technology, particularly in the areas of the company's operations, have dividends in our ability to access to newer and evolving processes and their applications in the company.

This has led to the company establishing a lead with customers and sharing with them the benefits of such technological advances quicker than the market.

5. Financial Reporting Risk

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, 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 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 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.

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 authorization of key transactions with cross checks
- Scrutinizing of management information data to pinpoint dissimilarity of comparative figures and ratios
- Creating a favorable 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 organization and assign responsibility for leaving the overall effort to a senior individuals.

6. 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 organization and CM (F&A) of the Company being the focal point will get the quarterly compliance reports from functional heads and being placed before the Board.

7. Quality and Project Management

MNGL is engaged in the implementation of CGD projects and is expeditiously pursuing the project implementation. In the process, MNGL has set up adequate no. of CNG stations and is laying considerable Steel and MDPE Pipeline network infrastructure to supply the natural gas to the various customers in the allotted Geographical areas.

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

Considerable focus is given to adherence to, 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.

CUGL is committed to maximize customer satisfaction and keep a clean and safe environment.

8. Health and Safety:

MNGL is following the guidelines of PNGRB in which risk management means the programme that embraces all administrative & operational programmes that are designed to reduce the risk of emergencies involving acutely hazardous materials. The basic procedure in a risk analysis adopted at MNGL is as follows:

1. Identify potential failures or incidents
2. Calculate the quantity of materials that may be released in each failure, estimate the probability of such occurrences
3. Evaluate the consequences of such occurrences.

Risk analysis of MNGL installations including Mother Stations and Pipelines was carried out through third party to identify the potential hazards, assess the impact of all probable hazards and mitigation measures to reduce hazards. Failure of pipeline can occur due to a number of different causes such as external interference, corrosion, fatigue, material defects, etc. To avoid all these failures, Standard operating procedures and effective safety management system are adopted to reduce the probability of accident to very large extent. Awareness of hazard among our customers is our prime target in safety education.

9. Environmental Risk Management

The Company 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.

For control of air pollution the Company runs its Compressors at CNG station on Natural gas and is using external catalytic convertors to avoid fugitive emissions from them.

Extensive plantation of trees around the CNG Stations is undertaken for green and clean environment.

10. Human Resource Management

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

Risk in matters of human resources are sought to be minimized 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 specialization. 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.

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

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, the Company 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 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,
- 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 goods sold on a continuing basis taking various changing scenarios in the market.

3) 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

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 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.

5) Market Risks / Industry Risks:

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

Risk Mitigation Measures:

- Gas is procured 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.

6) Human Resource Risks:

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

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.

7) 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.

8) System Risks:

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

Risk Mitigation Measures:

- IT 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.

9) 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.

- Contracts are finalized as per the advice from legal professionals and Advocates.
- 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

10) 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.