



KANDAGIRI SPINNING MILLS LIMITED

Post Box No.3, Udayapatti, Salem 636 140.Ph. 0427-2244400; Fax-0427-2244422

CIN : L17111TZ1976PLC000762

E mail: sales@kandagirimills.com; Website: www.kandagirimills.com

RISK MANAGEMENT POLICY

PREAMBLE

This is in compliance with clause 49 of the SEBI Listing Agreement, which requires the Company to lay down procedures about the risk assessment and risk minimization.

- i. The Board of Directors of the Company and the Audit Committee of Directors shall periodically review the risk management policy of the Company so that management controls the risk through properly defined network.
- ii. Head of Departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning and report to the Board and the Audit Committee.

SCOPE

This Policy Standard sets out the detailed requirements and minimum levels of achievement necessary to implement the risk management elements of the business. This policy facilitates management the risks associated with the business and minimize the impact of undesired and unexpected events.

Taking and managing appropriate levels of risk is an integral part of all our business activities. Risk Management, performed rigorously and comprehensively, creates stability, indirectly contributes to profit and is a key element of reputation management.

KEY DEFINITIONS

- **Risk**

A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action.

- **Risk Assessment**

The systematic process of identification, evaluation, and estimation of the levels of risks involved.

- **Risk Management**

The systematic way of protecting business resources and income against losses, so that the objectives of the Company can be achieved without any interruption.

- **Risk Management Process**

The systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

RISK STRATEGY

The Company recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. In this regard, the Company has adopted Risk Management Mechanism which involves the following process

a. Risk Identification

Process of systematically identifying all possible risk events which have a potential impact on the business

b. Risk Evaluation

Prioritizing the identified risks by the likelihood and the potential impact

c. Risk Mitigation

Managing risks by using any of the four techniques namely risk avoidance, risk transfer, risk sharing and risk reduction.

d. Monitoring and Review

Oversight and review of the risk management system and any changes that might affect it. Monitoring and reviewing occurs concurrently throughout the risk management process

e. Communication and Consultation

Appropriate communication and consultation with internal and external stakeholders should occur at each stage of the risk management process as well as on the process as a whole

RISK FACTORS

The Company (KSML) is engaged in the manufacture and sale of cotton yarn and the company has set up wind farms for power generation. Since the Company is working in an open environment, it faces various types of risks. The risks associated with the Company are enumerated here below:

Raw Material Risk

Raw cotton is the key raw material for the manufacture of yarn. Cotton being a seasonal agricultural commodity is prone to constant fluctuation in the prices.

Contd...3

Risk Mitigation measures

The Company with an experience of more than three decades in the textile industry has a sizeable presence in the market and constantly follows the global trends, which makes the Company able to take informed decisions for procuring cotton. The Company procures cotton from both domestic and international markets in sufficient quantities to meet the selling obligations. The Company maintains its cotton stock level in line with the cotton price trends.

Quality Risk

One of the Key parameter for the success of a Spinning industry is quality spectrum of the yarn product. Since Quality complaints will create an adverse impact on the market position of the Company.

Risk Mitigation measures

The Company adheres to better quality standards by carrying out adequate and comprehensive quality checks in every process of yarn production from cotton evaluation to manufacture of end product.

Technological Risks

Textile technology is upgraded from time to time. Since there is a trend of moving away from mass production of simpler products towards a wider variety of products with a higher added value, textile sector has to adapt itself to the developing technologies.

Risk Mitigation measures

The Company replaces machinery and Equipment on constant basis to suit the requirements from time to time.

Market Risks

As an intermediary product, price stability of yarn depends on both the price of cotton and the demand present in the fabric market. Yarn markets are rapidly evolving and highly competitive. And further competition gets intensified due to value added products and count varieties.

Risk Mitigation measures

The key factor that distinguishes players in the yarn market is their count ranges and value added products and the Company believes that it has a strong command over its market position by producing value added products and different count varieties blended with good marketing strategies which includes inter & intra state and export sales.

Costs Risks

Apart from raw material costs, the two other largest cost components for the Spinning Industry are labour and power

Labour

Unlike the developed countries, Indian textile industry is only partly mechanized and continues to employ a large workforce. An optimal workforce and cordial labour relations ensures uninterrupted operations and controlled labour costs.

Risk Mitigation measures

The Company has employed adequate manpower and proper training is given at regular intervals for skill upgradation. Leave and Absenteeism are well controlled by proper recruitment policy.

The Company has also devised welfare schemes.

Power

In Spinning Mills, power costs play a vital role in production costs and an uninterrupted supply of power is critical for consistent yarn quality.

Risk Mitigation measures

The Company has taken reduction measures for power costs by minimizing the usage of genset power during the power cut period by utilizing windmill power and captive power purchased from private power producers and the Company has also commissioned dedicated feeder lines for uninterrupted power supply.

Foreign Exchange Risk

Company is exposed to foreign exchange risk on account of its export sales to other countries and imports from overseas suppliers

Risk Mitigation measures

Company manages the risk on account of foreign currency fluctuations by immediately covering the forward contracts.

Credit Risks

Company faces credit risks in case of delays in settlement of dues by dealers/customers.

Risk Mitigation measures

Company has put in place a proper system for assessment of creditworthiness of dealers/customers and also devised an appropriate recovery management and follow up. Export sales are contract based hence there is no delay in settlement dues. Domestic buyers are classified in terms of their credit period and product price fixation is done on the basis of credit period.

Legal Risks

The Company operates in a complex legal/regulatory environment and is governed by various laws and statutes. Hence the Company is exposed to legal risk exposure.

Risk Mitigation measures

Company has set up an experienced team of professionals and has established a well compliance management to deal with all legal requirements.

Losses for factors beyond Management Control

The Company has taken Insurance Policies to cover various risks of loss from factors like theft, accidents, and transit losses etc, which are beyond the control of the Management.

Other Risks

Apart from the risks mentioned above, the Company's business is exposed to other operating risks, which are mitigated through regular monitoring and corrective action.

Conclusion

As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the risk management strategies will be updated from time to time as an ongoing process. Management will be developing risk mitigation plans and its implementation accordingly.

Date : 28th May, 2015

Place : Salem

**By order of the Board
Kandagiri Spinning Mills Limited**

