

THAMBBI MODERN SPINNING MILLS LIMITED

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RISK MANAGEMENT POLICY

1 Risk Management

THAMBBI MODERN SPINNING MILLS LIMITED ('TMSML') recognises that enterprise risk management is an integral part of good management practice. Risk Management is an essential element in achieving business goals and deriving benefits from market opportunities.

2 Policy

TMSML is committed to managing risk in a manner appropriate to achieve its strategic objectives. The Company will keep investors informed of material changes to the Company's risk profile through its periodic reporting obligations and ad hoc investor presentations. The Company reviews and reports annually on its compliance with the Corporate Governance Principles and Recommendations, which include principles relating to risk management and the internal control framework.

Essence of the risk management policy of the company is to eliminate all perceivable risks and minimize the effect of unperceivable risk. Towards this end the following practices are followed in the Company.

3 Risk Management Philosophy

The continued successful safeguarding, maintenance and expansion of the Company's businesses requires a comprehensive approach to risk management. It is the policy of the Company to identify, assess, control and monitor all risks that the business may incur to ensure that the risks are appropriate in relation to the scale and benefit of the associated project, business or practice and to ensure that no individual risk or combination of risks result in a likely material impact to the financial performance, brand or reputation of the Company. Fundamental values of the Company are respect for our employees, customers and shareholders and integrity in everything we do. By acknowledging that risk control is part of everyone's job, and by incorporating risk management into daily business practices the Company will be better equipped to achieve our strategic objectives, whilst maintaining the highest ethical standards.

All the staff members are expected to demonstrate highest ethical standards of behaviour in development of strategy and pursuit of objectives.

4 Risk Appetite

TMSML's risk appetite represents the amount of risk the Company is willing to undertake in the achievement of its strategic objectives. It is inextricably linked to the Company's strategic and operating planning processes. In assessing risk appetite the management considers the needs and expectations of the Company's shareholders, customers and employees and the desire to build a profitable, socially responsible and sustainable organisation.

As an organisation that provides products that are all essentially of a compliance nature, the management acknowledges that stakeholder's expectations are likely to be more exacting than could be applied to other organisations. As a consequence SSML will not accept risks which could expose the Company to:

unacceptable levels of financial loss relative to strategic and operational targets ;
breaches of legislative or regulatory non-compliance ;
damage to relationships with its customers and key stakeholders ;
health and safety metrics below the target and damage to its reputation ;
unacceptable interruption to the production process ;

5 Risk Identification

Risk identification, assessment and treatment are part of the yearly business planning process. Risk ownership is allocated to management for risk assessment and risk treatment plan determination. The effective management of risk is the responsibility of all managers, staff and others engaged to act on behalf of the Company.

Regular review, assessment and monitoring of existing risks are done at periodic intervals. New risks are to be managed as they arise.

Individually and collectively the Company's employees shall:

Consider all forms of risk in decision-making;

Create and evaluate divisional and business unit risk profiles;

Continually monitor and seek ways to improve the risk management framework;

Retain ownership and accountability for risk and risk management at the corporate and divisional/unit level;

Strive to achieve the best practices in Enterprise Resource Management (ERM) and accept that ERM is mandatory. Risk Identification is obligatory on all vertical and functional heads who, with the inputs from their team members are required to report the material risks to the Chairman and Managing Director (CMD) along with their considered views and recommendations for risk mitigation. Analysis of all the risks thus identified is carried out by CMD and suitable action is taken to eliminate / mitigate the risk.

6 Risk Treatment

Risk Treatment options are considered in determining the suitable risk treatment strategy. Well determined action plans supporting the strategy are recorded in an on-line risk management database identifying responsibilities and a time line for completion.

Risk treatment options include:

Avoid the risk;

Reduce the likelihood of its occurrence;

Reduce the consequences of the occurrence;

Transfer the risk (mechanism includes insurance arrangements); or

Retain the risk.

Senior management team is required to monitor and review the existing risks recorded in the risk management system and to add new identified material risks at least quarterly. It is the responsibility of the senior management to ensure that risk records are updated.

Key risks reports, with progress of risk treatment implementation and the effectiveness of controls, are to be reviewed by the Audit Committee at the quarterly meetings.

Reports relating to the risk management framework are reviewed by the Board and the Audit Committee with the management regularly.

Treatment of Risk through the process of selecting and implementing ensures to mitigate, if possible to eliminate the risks, to prioritize risk control actions in terms of their potential to benefit the organization. Risk treatment includes risk control/mitigation/elimination for

- a) Effective and efficient operations
- b) Effective Internal Controls
- c) Compliance with laws and regulations

Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

7 Risk Registers

Risk Registers shall be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Factory Manager is responsible for proper maintenance of the Risk Registers which will facilitate reporting of the effectiveness of the risk treatment to the CMD/JMD.

8 Integration of Risk Management Strategy

Risk management strategy is integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aid in establishing competitive advantage and allow management to develop reasonable assurance regarding the achievement of the Company's objectives.

Type of Risk:

- a) Financial Risk
- b) Machine Failure
- c) Man Made disaster
- d) Natural disaster

a) Financial Risk:

Company takes forward cover to guard against uncertain fluctuation in Forex rates wherever FLC facilities are availed from the Banks.

Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material are reported to the Audit Committee and the Board of Directors.

Cash in transit insurance is taken to cover the risk in handling cash between the Banks and each units / office of the Company;

b) Risk of Mechanical / Machine failure:

Annual maintenance contracts are entered into with the machinery suppliers who take the responsibility for maintaining the machinery supplied by them in perfect working condition. This ensures to eliminate/reduce the machine downtime and cost of mobilising resources to set right the mechanical defect or failure. For instance Gear Box in Wind Electric Generators (WEG) may fail any time. To repair or replace the Gear Box huge crane will have to be mobilised to the location of the WEG. Without AMC the cost of mobilising the crane and repairing the Gear Box will be enormous. AMC reduces this risk. Wherever AMC is not possible/entered into with the supplier, Company takes machinery breakdown policy. Under this policy the cost of repairs and replacements is covered.

All the 16 WEGs of the Company erected in Tirunelveli and Coimbatore districts of Tamil Nadu are fully covered under appropriate insurance against flood, earthquake, fire, lighting and Aircraft damage [Total cover for WEGs Rs.41.80 Crores through SBI General Insurance Company Ltd. and it is renewed every year]

Insurance Cover for Spinning Mills and Cotton Godown

Separate comprehensive Insurance Policy for each unit is taken with SBI General Insurance Company Ltd. for Cotton Godown and for the raw materials, stock in process and finished goods in each mill apart from the Plant, Machinery and Buildings in each unit of the Company's Spinning Mills.

Insurance cover taken for the year 2021 thro' SBI General Insurance Company Ltd. for the spinning Mills in all the Units are as under.

	Insurance cover value (Rupees Crores)			
	UNIT I	UNIT II	UNIT III	UNIT IV
Stock of Raw Material & Finished Goods	41.30	21.99	30.80	2.05
Plant & Machinery, Buildings & Stock in process	46.61	34.81	68.52	23.00

c) Man made Risk

Fire Risk

Cotton godowns are located in separate enclosures where there is total absence of electrical circuits to eliminate fire risk due to short circuit. Cotton storage and collections are handled only during day time.

Water Tanker containing 12,000 litre water is positioned near the Cotton Godown to take care of any contingency. Fire diverters are installed in strategic and high risk zones mainly in the waste cotton chute in the Spinning Mills. Employees are screened at the gate to ensure that no one carries match box, cigarette lighter or any inflammable material inside the mill premises.

Fire extinguishers are installed as recommended by Safety Inspectors. They are periodically checked to ensure its potency.

Fire hydrants are installed at high risk zones.

Fire drills are carried out periodically to educate the employees to handle any such emergency.

d) Natural Disasters

Lightening arresters are installed in each Spinning Mill.

Flood Risk

Risk of damage due to flood is very low in Salem. However, Storm water drains and rain water collection channel are provided inside the mill premises and taken to water sump, which is used / circulated to maintain the humidity level inside the Spinning Mill.

Diesel Tank

Diesel tanks in respective Unit locations are subjected to periodic inspection. Fire extinguishers (Foam and Chemical extinguishers) are installed near the tanks to protect the diesel tanks. All the storage and the tanks are covered under SBI General Insurance Co. and the value of the tanks and the contents are included in the above policies.

9 Internal Compliance and Controls

In addition to the risk management framework, the Company has an internal compliance and control system based on the following:

- An internal audit program approved by the Audit Committee;
- A financial reporting control system which aims to ensure that financial reporting is both accurate and timely.

The Company has a number of control processes in place to help ensure that the information presented to the senior management and the Board is both accurate and timely. The Audit Committee reviews and analyses the effectiveness of the risk management framework, the internal compliance and control systems and reports the same to the Board at such intervals as determined by the Board.
