MAHARASHTRA SCOOTERS LTD.
CIN -L35912MH1975PLC018376
Regd. Office: C/o Bajaj Auto Limited,
Mumbai- Pune Road, Akurdi, Pune 411 035 ( India)
Phone: 020 71576066 | Fax: 020 71576364
Website: www.mahascooters.com

# MAHARASHTRA SCOOTERS LIMITED

## RISK MANAGEMENT POLICY

| | |
|---|---|
| **Prepared by** | **Shri Anish Amin** |
| **Approved by** | **Board of Directors on 25 October 2021** |
| **Reviewed by** | **Board of Directors on 15 March 2023** |

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Factory: C-1, MIDC, Satara 415 004. Phone: 298129 Fax: 91-2162-244428

# 1. INTRODUCTION

## 1.1. Purpose

This document sets the framework for Management of the risks that Maharashtra Scooters Limited (hereafter refer as "MSL" or "the company") is exposed to. MSL has two streams of operation viz. Manufacturing and Investments. Since the Investments of MSL are substantially (>90%) in group companies and thus has been categorised as an Unregistered Core Investment Company (U-CIC) as per the RBI regulations. The key purpose of this framework is to help manage business and better deal with risks in achieving the company's objectives.

## 1.2. Scope

The Policy covers the roles and responsibilities of the Board's Risk Management Committee ('RMC') and Risk management function.

The Policy sets out the risk strategy and appetite of the Company and its objectives in respect of risk identification, measurement, monitoring and control. The Policy does not detail the Company's processes for the day-to-day management of risks.

This policy also enables the Company and its Board of Directors (including their committees) comply with the requirements of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Regulations), 2015.

## 1.3. Objectives

MSL operates in two sectors viz. Manufacturing and Investments which are continuously changing due to external pressures to quickly adapt to new regulations and competition. Any business strategy entails risk. In all types of undertaking, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside).

Enterprise risk management ('ERM') deals with risks and opportunities to create or preserve value. ERM as a process is ongoing, effected by people (board of directors, management and employees), across the Company and applied in setting strategy, designed to identify potential events (risks and opportunities) and manage the risks within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The Company is committed towards managing risks in line with its stated risk appetite through a systematic framework which identifies, evaluates, mitigates and monitors risks that could potentially have a material impact on the value of the organization or potentially hinder the organization in achieving its stated business objectives and goals.

The risk management practices are aimed to address one or more of these risk management goals as given below:

- Determine the risk profile of the Company;
- Ensure integration of risk considerations into decision-making processes including promotion of a strong risk management culture supported by a robust risk governance structure;
- Determine the relevant processes and strategies for risk management which include identification of risks, ongoing measurement and monitoring of risk exposures and ensuring relevant control or risk transfer;
- Develop and monitor mitigation plans for high risk items identified through the Self-Assessment mechanism done by respective business function, loss events and Internal / Statutory audit findings;
- To ensure adherence to all regulatory mandates as laid down by different regulatory authorities and all critical internal policies/limits;
- Proactive and reactive approach to manage fraud;
- Minimizing reputational risk as identified and assessed as part of a regular assessment and managed on a case-by-case basis.

## 2 RISK GOVERNANCE FRAMEWORK

### 2.1. Risk Governance Structure

Effective risk management is based on a common understanding of risks, clear organizational structures, and comprehensively defined risk management processes. The Management establishes and adheres to a risk strategy and associated risk appetite for the company's business, which is derived from and is consistent with the business strategy. The risk governance structure of the Company consists of RMC which assists the Board of Directors to achieve desired risk objectives.

### 2.2. Roles and Responsibility

**Board of Directors**

The main responsibilities of the Board is to oversee the operation of an appropriate risk management strategy. The Company's Board has delegated its risk management and oversight responsibilities to the RMC.

**Risk Management Committee (RMC)**

The RMC oversees the functioning of the overall risk management framework of the Company and implementation of the risk management strategy including financial, operational, sectoral, ESG, information / cyber security, regulatory, reputation, business continuity etc, to the extent applicable. The RMC has also been vested with the responsibility to formulate, implement and periodically monitor the status of the risks. The majority of members of RMC are members of the Board of Directors with one Independent Director. The Chief Financial Officer (CFO) is a permanent invitee to all meetings of the RMC. The Executive in charge of manufacturing is responsible for managing the risks as regards the manufacturing activities of the company.

The main responsibility of RMC is to establish effective Risk Management Framework and recommend to the Board the Risk Management policy and process for the organisation.

## 3 RISK MANAGEMENT FUNCTION

The Risk Management Function is an integral part of the "Three-Lines-of-Defence" concept which defines (i) first line of defence in the Operating Business in which the respective heads of functions are responsible for having internal controls [these functions include, with respect to manufacturing activity, Product development & pricing, marketing and Human resource and the CFO shall manage the risks emanating from Investment activity, Finance & Accounts] (ii) second line through the Head of Manufacturing Operations and the Risk Management through the CFO and (iii) third line through external and internal Audits.

Its main objectives are to set up the risk framework, identify, measure and monitor key risks across the organization, recommend mitigation solutions/controls, monitor controls and create risk awareness across the Company and

a) Supporting the first line-of-defence by helping ensure employees at all levels of the company are aware of the risks related to their business activities and how to properly respond to them;
b) Supporting the RMC with development of a risk strategy and risk appetite;
c) Monitoring of the risk profile to ensure it remains within the approved risk appetite and following up on instances of any risk appetite breaches (i.e. via resolution directly with the first line-of- defence and other stakeholders or escalation to RMC)

## 4 RISK MANAGEMENT FRAMEWORK

Risk Management Framework consists of the following key elements

a) Risk Management process
b) Approved Policies – Investments Policy

### 4.1. Risk Management process

Effective risk management requires identification, assessment, mitigation, monitoring and reporting of risks.

**a. Identification and assessment**

Risk identification is carried out on a regular basis, including as part of the business planning process and any major business initiatives, and draws on a combination of internal and external data, covering both normal conditions and stressed environments. This shall be the result of a self- assessment process where risks are recorded into a risk register or Risk Control Matrix. Risk measurement is then done basis a combination of its severity, related control environment and the probability of occurrence.

**b. Mitigation and monitoring**

Monitoring ensures that the risk management and mitigation approaches (accept, avoid, transfer, control) in place are effective. Monitoring may also identify risk-taking opportunities. The Company will regularly monitor the risk exposures against risk appetites, as well as key risk indicators against operating and financial risk limits and tolerances. The Company will monitor the effectiveness of controls in place to manage

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operational risks, including compliance with the regulatory guidelines and internal defined standards.

*I. Top Risk Assessment*

The TRA is a periodic analysis of all material quantifiable and non-quantifiable risks to identify and remediate significant threats to financial results, operational viability or the delivery of key strategic objectives.

*II. Assessment of residual risk*

The residual risk is the risk that remains after considering the mitigation and existing controls in place and in the process of being implemented. Wherever the residual risk is perceived as high, the Company has additionally laid down mitigation actions where further strategic intervention may be required.

| **Residual risk level** | **Action steps** |
|---|---|
| High | Strategic intervention may be required within the next 12 months |
| Medium | Strategic intervention may be required within the next 12-36 months |
| Low | Strategic intervention is unlikely to be required for next 36 months |

**c. <u>Reporting</u>**

The Risk Management Function shall submit a list of top risks classified according to assessment of residual risk along with mitigation plans to the RMC bi-annually. This shall amongst others include evaluation of Credit Risk, Liquidity Risk, Operational Risk, Business Risk and Market risks.

### 4.2. Approved Policies

The Company also has in place the following indicative Board approved policies which assist in risk identification, measurement and monitoring, also lays down control standards relating to the various individual risks:

a. Investment policy;
b. Code of Conduct including the Code of Conduct framed under Insider Trading Regulations; and
c. Whistle blower policy / vigil mechanism.

## 5 RISK PROFILE OF THE COMPANY:

Investments in Group companies are strategic in nature. Each of the Group companies have their own Risk Management committees which review risks, their mitigation, control and trends. Of these, critical risks of Bajaj Auto Limited and Bajaj Finserv Limited (which includes it's subsidiary Bajaj Finance Limited) are monitored and reviewed by the holding company i.e. Bajaj Holdings and Investment Limited.

**Credit Risk and Liquidity:**

**Investments Activity:**

Our Investments and Trade receivables are exposed to Credit risks.

The company evaluates economic conditions which influence the financial markets and balances the emerging trends in Interest rates and market liquidity with cash needed for operations/expenses and accordingly makes investments only in highly rated issuers and securities. The Investment Policy spells out the credit rating and profiles of approved investments as also the concentration limits.

**Manufacturing activity:**

Business is conducted with only large credible entities which operate in industry segments that have active and buoyant markets and are not operating in stressed markets, have a credible management and governance structure and carry reputational goodwill in the business community.

**Liquidity**

Adequate liquidity is maintained in liquid securities/funds to manage unforeseen cash needs to meet obligations due to changes in conditions.

**Operational and Business Risks:**

Operational risks arise from failed processes, people conduct and technology. Operational risks are mapped to protect financial losses, safeguard assets and ensure orderly conduct of business.

Towards this objective, the Company has put in place systems and processes which are captured in Risk Control Matrices serving as a risk register. Controls and control activities are identified against each risk and the residual risk is rated based on the effectiveness of the control and the severity of the residual risk.

Severity may be from a financial, reputational and a regulatory perspective.

**Business risks and Market risks viz.**

| | |
|---|---|
| 1 | Product Quality, |
| 2 | Product pricing, |
| 3 | Product Innovation, |
| 4 | Adequate Profit margins, |
| 5 | Continuity of demand and markets, |
| 6 | Customer Loyalty, |
| 7 | Customer/Industry concentration and dependency, |
| 8 | Ability to pass through cost increases, |
| 9 | Availability of Raw Materials and consumables, |
| 10 | Technological changes, |
| 11 | Innovation, |
| 12 | Flexibility and agility in manufacturing systems etc. |

are some of the risks that all trading and manufacturing businesses face which can bear on the performance and continuity of the business. These risks are managed by senior management through periodical reviews and planning. Industry trends are studied to adapt to foreseeable changes.

[The Credit Risk and Operational Risk are elaborated below]

## 6 APPROVAL AND REVIEW

This policy is approved by RMC. Further, the RMC shall periodically review this policy, make necessary changes keeping in consideration the following:

a) changes in business
b) changes in external environment
c) complexity / evolution of risks
d) results of effectiveness of risk management systems

Such review shall mandatorily be done by RMC atleast once in two years

### 1. CREDIT RISK

| | | |
|---|---|---|
| **Credit Risk** | **Sub Risk** | 1. Issuers of Bonds/Funds will default on payment of Interest and/or principal on anniversary dates.<br>2. Ratings of Issuers may adversely change due to deterioration in credit or changes in Macros.<br>3. Customers may not honour their obligations on due dates.<br>4. |
| | **Mitigant** | 1. We invest only in highly rated issuers and securities. Only AAA, AA+ and alike rated paper is invested in.<br>2. Regular group Investment group meetings (SIF) discussions are held to identify early warning signs convey a possibility of a credit risk<br>3. Regular engagement with Fund houses for securities on which we have a negative outlook<br>4. Customers with whom we do business with are reputed and financially/businesses are sound.<br>5. Customers are in businesses/industries which are not stressed or expected to be stressed are approached with extreme caution. |

| | | |
|---|---|---|
| | **Residual Risk** | 1. Sudden drops in ratings, as witnessed in case of IL&FS and DHFL, cannot be predicted.<br>2. External influences (e.g. Macros etc.) may evolve quickly creating a market risk which makes exits from exposures difficult.<br>3. Customers may be financially stressed which may not be so obvious and hence undetected. |
| | **Level of residual Risk** | 1. High on point 1 and 2 above<br>2. Medium on point 3 |
| **Reviewed on** | **March 2021** | High |

**2. Operational & Business Risk**

| | | |
|---|---|---|
| **Operational & Business Risk** | **Sub Risk** | 1. **Raw material and consumables**: Volatility in steel prices may prove difficult to pass through price increases post negotiations.<br>2. **Technology developments** could render our methods redundant and cost inefficient.<br>3. Adequate **skilled Workers** may not be available at desired wage levels. Managing **Attrition** can lead to higher costs and production inefficiency.<br>4. Our Workforce may cause stoppage of work as a measure to coerce **Wage settlement**.<br>5. Unavailability of adequate **uninterrupted Power** could lead to higher costs and cause frequent disruptions to production.<br>6. Our **IT** General Controls may fail exposing us to incorrect financial information being processed and also could result into material miss-reporting of financial information.<br>7. Non-compliance with **Regulatory requirements** could result in high penalties/fines and cessation of our production facilities<br>8. **Fraudulent conduct** by employees, vendors, customers, other partners individually or in concert can cause financial leakage and losses.<br>9. **Ability to achieve break-even** |
| | | 1. **For Raw Material & consumables** we have developed alternate suppliers along with desired pricing and quality to avoid uncertainty for price revision & material availability on time.<br><br>2. **Technology development** - Our system is developed in such a way for adaptability of technological changes time to time to avoid cost impacts. Current machines are new technology and competent to withstand impacts of change for at least 5-10 years if not more. |

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|---|---|---|
| | **Mitigant** | 3. To avoid scarcity of **skilled manpower** actions are in place with multiskilling the workforce. Constant cross functional training is imparted to employees to facilitate this.<br>4. Yearly increments **meeting expectations** with proper evaluation system in place to avoid incidences of strikes and labour unrest.<br>5. As our operation is in **MIDC area, there is uninterrupted power** supply though out the week. Further, for any unforeseen interruption back up arrangement though DG is available.<br>6. All IT controls in SAP are in place & getting monitored in regular frequencies along with password changes every month.<br>7. **Regulatory requirements** – System in place for monitoring the compliances of various government compliance. Every month / Quarter report is generated & circulated, internal auditors also verifying the details every quarter.<br>8. Diversification by focusing on other industry segments in addition to automobile industry |
| | **Residual Risk** | 1. Timing of changes in environment may not be predicted early enough to be able to ensure that mitigation strategy holds.<br>2. If Satara becomes a popular destination for Industries the demand for skilled workers may rise and so will expectations. The company may not be able to keep up with the same<br>3. New emerging markets may become scarce and hence the dependency on a smaller group of customers/sectors may continue to be a risk.<br>4. It may take longer than expected to break-even. |
| | **Level of residual Risk** | Residual Risks 1 to 3 are MEDIUM individually but their outlook on the company as a whole may not be significant at this point of time. |
| **Reviewed on** | **March 2021** | High |

**Pune**
**15 March 2023**

**CHAIRMAN**