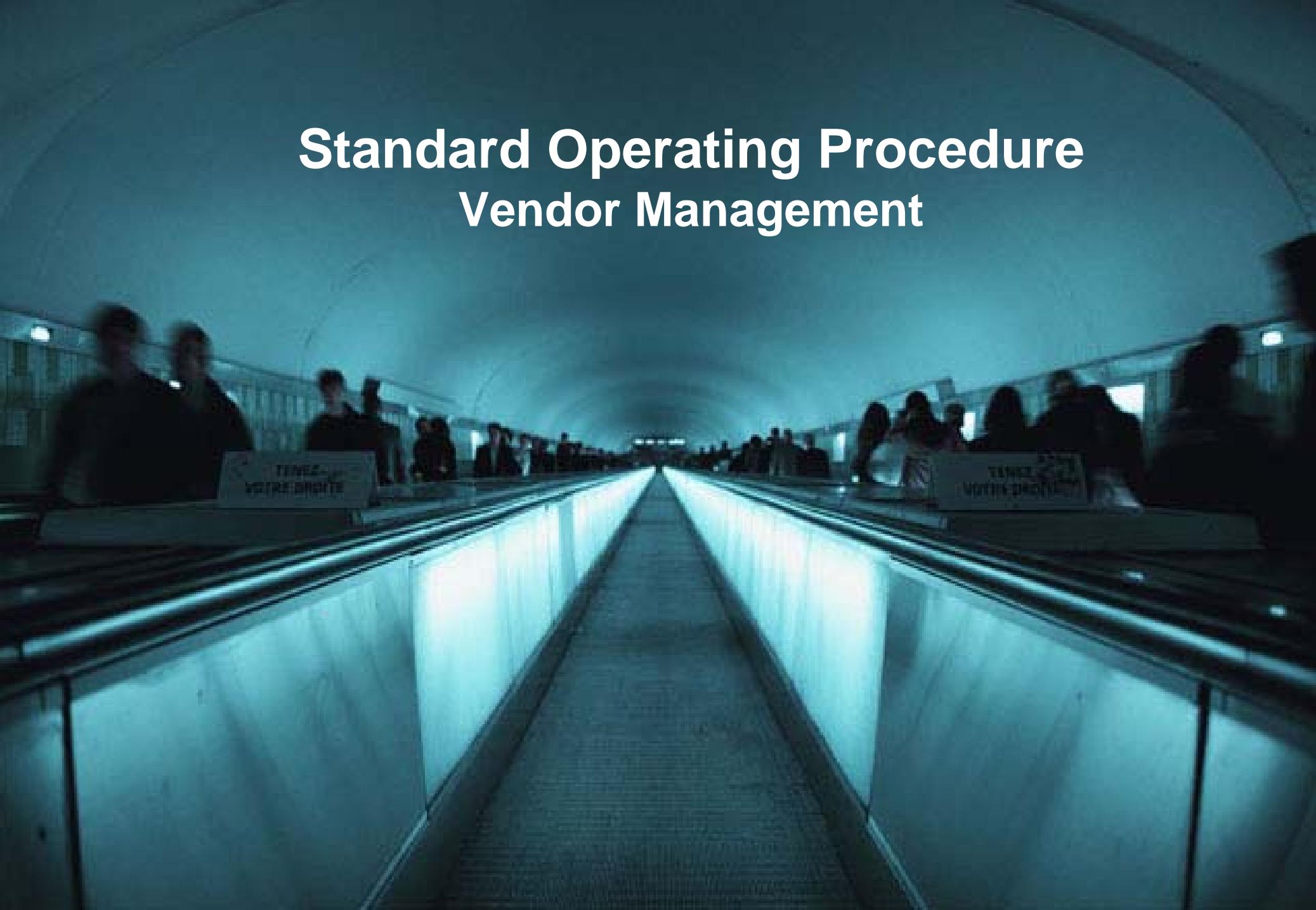


Standard Operating Procedure

Vendor Management



Vendor Management (Routine Activities)

**IDENTIFICATION OF
GLOBAL VENDOR/
VENDOR
DEVELOPMENT**

**PRE REGISTRATION
EVALUATION OF
VENDOR**

**MAINTAIN SAP
VENDOR MASTER**

**VENDOR
PERFORMANCE
MANAGEMENT**

SUB PROCESS OBJECTIVE – VENDOR DEVELOPMENT

- To satisfy the source needs of the procurement cell.
- To enlarge Global vendor base to reduce dependency risks
- Specific project related vendor (Based on location of project) development to cater that project.
- To streamline the process of vendor identification and development.
- To streamline the process of new vendor registration / approval.
- To ensure that business associations exists with approved vendors only.
- To improve competitive environment.
- To ensure periodical re-verification of reduced / enhanced capability of Vendor.
- To ensure that list of reliable registered vendors is available for each product category.
- To have a continuous development for the further improvement of Vendor Management Cell

VENDOR SELECTION CRITERIA

1. Vendor Identification / Development.

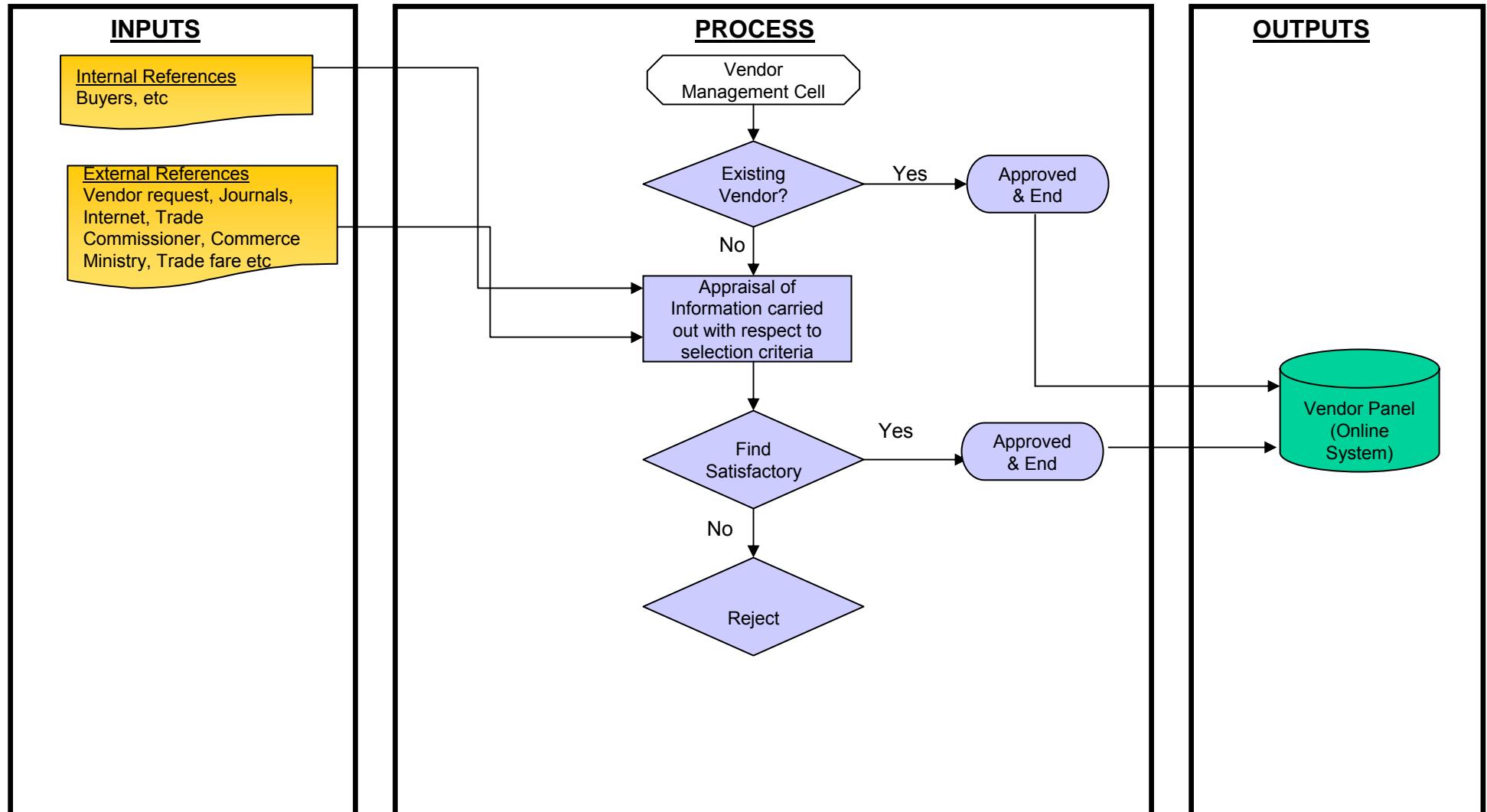
Potential Vendors should be identified / developed based on the following criteria:

- Product / Service
- Location
- Manufacturing facility / Capacity
- Infrastructure
- Annual Turnover
- Financial Strength
- List of major customer & sub vendors
- Material Handling System
- Quality Management
- Packing & Shipping facility
- Market Reputation
- Certification & Documentation

PRE-REGISTRATION EVALUATION / APPROVAL OF VENDOR

2. Vendor Registration / Approval
 - a. Vendors should provide the information in the prescribed format which is available in www.essar.com
 - b. Offsite evaluation carried out by vendor management cell to judge the vendor capability
 - c. Onsite evaluation of vendor carried out by the CFT (Cross Functional Team) by visiting the vendor premises
 - d. Vendors are registered / approved based on the visit report of CFT
 - e. In case of existing vendor of Essar Group, government companies, reputed manufacturers with proven track record and past experience, associate / sister concerns of already registered vendors, authorized dealers of the approved vendors etc, deemed to be considered as Registered / Approved vendor and onsite evaluation may not required to be carried out by CFT . However the information of such vendors must be available in the vendor database through the prescribed format.
 - f. On approval of the registration, the details of the vendors to be transferred to the SAP system and vendor code would be generated.
 - g. Group companies recommendation also considered for the approval of vendor
 - h. HOD can approve the vendor without onsite evaluation

DETAILED SUB PROCESS MAPS – VENDOR EVALUATION



DETAILED SUB PROCESS NARRATIVES – VENDOR REGISTRATION

Approved vendors are registered for a period of 3 (Three) Years. At the end of the period, the vendor are evaluated again to assess if they continue to meet the selection criteria of the company. However decision about business continuation can be taken based on periodical Vendor Performance Monitoring,

SUB PROCESS OBJECTIVE – SAP VENDOR MASTER

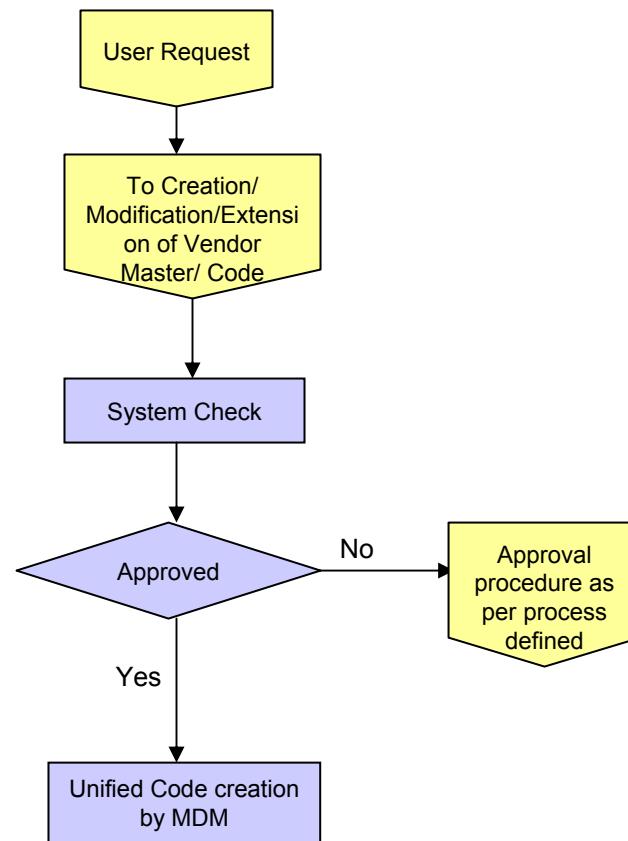
- To create unique vendor code in SAP system with all mandatory information/data
- To control the data consistency / avoid redundant data through MDM
- To modify vendor master record as required by business and supported by documents wherever required

DETAILED SUB PROCESS MAPS – MAINTAIN SAP VENDOR MASTER

INPUTS

Online SAP Code Request Form

PROCESS



OUTPUTS

Unified SAP Code

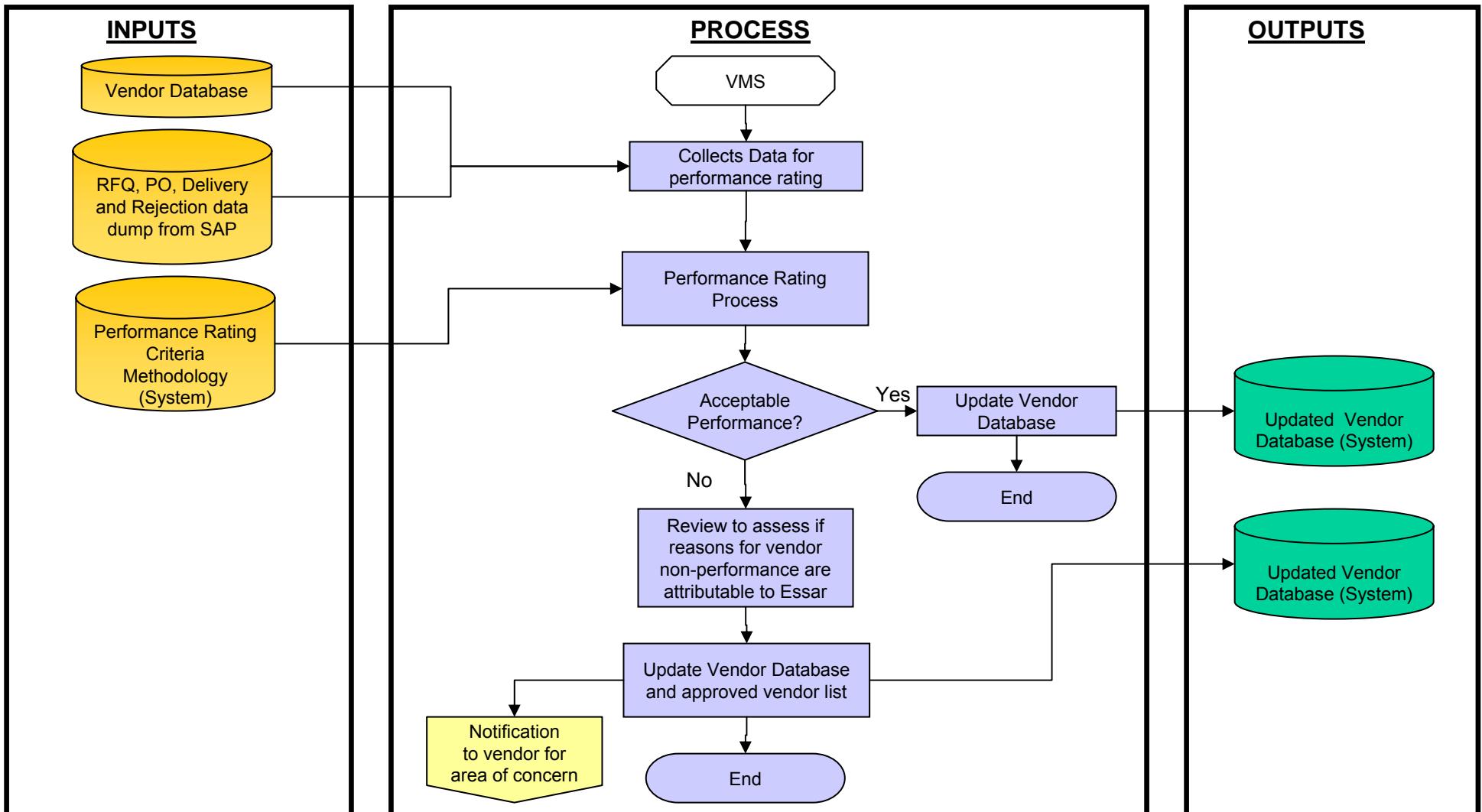
DETAILED SUB PROCESS NARRATIVES – CREATION / MODIFICATION OF VENDOR MASTER

1. Vendor Master are modified for various reasons. Reasons like change in address, change in communication details, change in line of business, introduction of new products are some of the reasons that requires a modification to the vendor master.
2. Modification of Vendor Master follows the same procedure for approval (If required) that is followed for new Vendor Master Creation. Modification of Vendor Code is not allowed.

SUB PROCESS OBJECTIVE – VENDOR PERFORMANCE MANAGEMENT

Evaluate and identify performing and non performing vendors as per the vendor evaluation methodology to aid the vendor management process

DETAILED SUB PROCESS MAPS – VENDOR PERFORMANCE MANAGEMENT



DETAILED SUB PROCESS NARRATIVES – VENDOR PERFORMANCE RATING

1. All Vendors on whom Purchase Order (PO) has been raised are reviewed for their performance on an annual basis for the orders executed on the vendor rating guidelines. The data for vendor evaluation is extracted from SAP / Procurement dept and the computation of vendor score is carried out based on vendor evaluation methodology. The Vendor Management Cell holds discussions with vendors with low ratings to determine the root cause and initiate corrective action. The prime responsibility of vendor evaluation is with Vendor Management Cell and Procurement Cell would provide support to VMC, wherever required.
2. Based per the vendor evaluation methodology, Vendor is evaluated on the following criteria:
 - Price
 - Quality
 - Delivery
3. Weightage of the Criteria: The vendor evaluation system will be based on a 100 base point level under the key performance criteria mentioned above. The weightage of each criteria are provided below:

| Criteria | Weight age % |
|----------|--------------|
| Quality | 50 |
| Delivery | 10 |
| Price | 40 |

DETAILED SUB PROCESS NARRATIVES – VENDOR PERFORMANCE RATING

4. Factors and Conditions: Important factors and conditions for consideration & analysis under each of the criteria are as under:

| Criteria | Factors & Conditions |
|----------|---|
| Quality | <ul style="list-style-type: none">-Number of cases of rejection.-Cases of acceptance with deviation of norms: If change by buyer's option: acceptance; If change as a compromise: rejection for the purpose of evaluation.-Consignment rejected once by the authorized inspector/stores/user and later accepted by regularization, is treated as rejected for the purpose of evaluation. |
| Delivery | <ul style="list-style-type: none">-Conformance to schedule.-Deliveries received more than 15 days in advance of the due date is treated as non-compliance with delivery schedule. But if advancement of schedule is on buyer's request, it is not be treated as non-compliance.-When part delivery is made in place of quantity scheduled, it is treated as non-compliance of the schedule. |
| Price | <ul style="list-style-type: none">-Number of final quotations with L1 price in relation to total number of quotations by a vendor. |

3.W.2. DETAILED SUB PROCESS NARRATIVES – VENDOR PERFORMANCE RATING

5. Rating Indices and Score:

| Criteria | Factors & Conditions |
|----------|---|
| Quality | <p>Measurement through Quality Consistency Index (QCI)</p> $QCI = \frac{\text{Number of consignments accepted during the year}}{\text{Number of consignments received during the year}}$ |
| Delivery | <p>Measurement through On Time Scheduled Quantity Index (OTQSI)</p> $OTQSI = \frac{\text{Number of deliveries where quantity & delivery is within norms (as per schedule)}}{\text{Total number of deliveries during the year}}$ |
| Price | <p>Measurement through Relative Price Index (RPI)</p> $RPI = \frac{\text{Number of quotations (Final) with the L1 prices}}{\text{Total number of quotations submitted}}$ |

3.W.2. DETAILED SUB PROCESS NARRATIVES – VENDOR PERFORMANCE RATING

6. Overall Score and Grading Structure: The Overall score is derived from the scores against each of the criteria, taking the weightage factors assigned to each. The performance evaluation matrix is as follows:

| Overall Rating Range | Grade | Explanation of Grade |
|----------------------|-------|---|
| >90% | A | Excellent |
| >75% to <=90% | B | Very Good |
| >60% to <=75% | C | Good |
| <=60% | D | Low rating. Determine root cause& initiate corrective action |

SUB PROCESS OBJECTIVE – VENDOR PERFORMANCE RATING

- To establish an appraisal methodology which, as far as practicable, provides an effective, timely, accurate & consistent and a true reflection of performance of vendors.
- Evaluate and identify performing and non performing vendors for;
 - effectively using the relationship with vendor for mutually beneficial business associations
 - eliminate non performing vendors responsible for high cost of material or transactions
- Assist the vendor in identifying areas of improvement

DETAILED SUB PROCESS NARRATIVES – VENDOR PERFORMANCE RATING

Guidelines for Vendor Rejection / Delisting:

Vendors who don't qualify as per the vendor evaluation system shall be rejected / de-listed. Vendors are registered for a specified period. At the end of the period, the vendor are evaluated again to assess if they continue to meet the selection criteria of the company along with vendor performance rating. If the vendor is rejected / de-listed no RFQ or PO is allowed to send to him and system restricts for such operations.

DETAILED SUB PROCESS NARRATIVES – VENDOR PERFORMANCE MANAGEMENT

Guidelines for Vendor Blacklisting:

Cases of vendors requiring review for blacklisting are summarised below:

- No compliance with Company's ethical policies
- Infringement of ethical standards in business dealings
- Resorting to malpractices that resulted in or might have resulted in loss to the Company
- Using Company's assets/rights/names etc. to vendor's own advantage etc.

Action for black listing commences immediately on the basis of inputs from any relevant sources e.g., buyers, inspecting staff, inspection reports, customers, any responsible official of the Company, secret/confidential reports, information of criminal proceedings/suspect against a vendor, any judicial/quasi judicial directives, any advice from CEO etc.

Any decision to blacklist a vendor is taken only after considering the entire performance of vendor, above criteria and the Company in the context of the procurement as a whole. The performance also includes the respective roles and obligations of the vendor and Company under the terms and conditions of the PO. The vendor database clearly shows the "BLACKLISTED" status against each such vendor. System not allows to raise RFQ & PO against blacklisted vendor.

Registering a Blacklisted vendor again shall be done only with the approval of CEO.