AERO PAINTS LTD.

RISK MANAGEMENT POLICY

Effective risk management of operations throughout the organization is the key to success in a fiercely competitive business environment. Risk Management is a standardized and uninterrupted process, aiming to identify, evaluate, manage, and control the risks to which the operations of the business may be exposed, ultimately delivering value to the stakeholders. It is crucial to the Company's strategic and systematic efforts to attain operational goals while minimizing potential interruptions.

Risk Management is important for Aero Paints Ltd. (APL), catering to both industrial and decorative customers. Macro-economic conditions can affect the company operations. Low demand, political instability, crop failures, and natural calamities may impact the business. Business, therefore, is not risk-free. It is important to correctly assess risks, area-wise, understand the impact, and initiate action to mitigate the risks.

In Aero Paints Ltd. (APL), Risk profiling is in place for all areas of operations and well-integrated into the business cycle. The Company has identified the risk areas in its operations along with their probability and severity, department-wise.

The various risk areas are as follows:

1. Strategic Risk: Relates to the company's future business plans and strategies, including risks related to the industry/sector.

2. Operational Risks: Cover risks in business operations related to procurement, manufacturing, distribution, sales, and service of the product. It also includes operational, sustainability, and people risks.

3. Statutory Risk: With an increase in geographical spread, APL is subjected to constantly changing local legislations. There is a risk of non-compliance or delay in compliance with statutory requirements.

4. Financial Risks: Associated with operations that can have a financial impact on the organization.

5. System Risk: With the increasing use of IT within the organization, critical controls, including information and cyber security, become important.

The identified risks are further classified into high risks, medium risks, and low risks. On the basis of the type of risks, the risk mitigation methodology is evolved.

An effective Risk Management Framework is put in place in the Company to analyze, control, and mitigate risks.

The Risk Management Framework comprises a Risk Management Committee and Risk Officers. The Chairman of the Risk Management Committee is Mr. P. P. Shah (Chairman), Mr. Anuj Jain (Managing Director), Ms. Sonia Singh (Independent Director), Mr. P. D. Pai (Chief Risk Officer), and Mr. Jason Gonsalves as its other members. The Risk Officers are the functional heads representing various functions. The Board of Directors and the Audit Committee review the effectiveness of the Risk Management framework and provide advice to the Risk Management Committee at regular intervals.

The Risk Management Framework consists of the following constituents who carry out the following functions:

- The Board of Directors:

- Decide strategic goals and risk appetite of the company.

- Review the risk appetite and risk policies at regular intervals.

- The Audit Committee provides oversight to the Company's Risk Management function and reviews effectiveness, providing advice at periodic intervals.

- Risk Management Committee:

- Prepares a company-wide framework for risk management.

- Fixes roles and responsibilities.

- Communicates risk management objectives.

- Gives direction for managing cyber security.

- Draws action plans and allocates resources.

- Determines criteria for defining major and minor risks.

- Decides strategies for escalated major risk areas.

- Updates the company-wide Risk register.

- Prepares MIS report for the review of the Audit committee.

- Risk Officers (Functional Heads):

- Prepare a framework for risk management for their function.

- Monitor its effectiveness and efficiency.

- Implement the risk management systems in their function.

- Communicate objectives and procedures to all employees.

- Review the risk MIs generated from the system.

- Provide comments and action plans against each risk.

- Present the final risk dashboard to the Risk Management committee.

- Chief Risk Officer:

- Defines processes and procedures.

- Gives directions to the Risk officers in their functions.

The Risk Management Framework aims to:

a. Address our Company's strategies, operations, and compliances and provide a unified and comprehensive perspective.

b. Establish the risk appetite.

c. Be simplistic and intuitive to facilitate a speedy and appropriate identification of potential and actual risks and their communication.

d. Seek escalation of the identified risk events to the appropriate persons to enable a timely and satisfactory risk response.

e. Reduce surprises and losses, foresee opportunities, and improve the deployment of resources, ensuring business continuity.

f. Develop a mechanism to manage risks.

The Company also maintains a Risk Register that contains comprehensive details of various risk areas and events concerning the Company. A detailed Risk register is maintained function-wise to monitor and mitigate risks. Risk mitigation plans also form a part of the Risk Register.

In APL, through the Risk Management framework, systems and processes are set to identify, gauge, and mitigate any potential risks promptly and efficiently to manage and control them effectively. Clearly defined work profiles and assigned responsibilities are well in place throughout the organization, at all levels and all functions, ensuring the smooth flow of information across various levels within the organization.

\*\*Approach to Risk Management:\*\*

The approach to Risk Management adopted by AERO PAINTS LTD. includes the following:

\*\*Identification of risk:\*\*

The approach to risk management includes the identification of various risks at a functional level which have a significant material impact on the company either at the Strategic, Operational, System, Financial, and Statutory levels.

\*\*Analyzing Risk along with evaluation and risk prioritization:\*\*

For each risk identified, a specific risk element has been identified and classified on three parameters based on internal discussions and deliberations:

a) Probability of occurrence

b) Time frame or period (Short term - 1 year time frame, Medium term - 1 to 3 years times frame, and long term > 3 years)

c) Risk Assessment (High, Medium, and Low)

\*\*Treating and Monitoring Risk:\*\*

For every risk element identified, the company has identified a mitigation strategy as well as a tracking mechanism, frequency of tracking, whether the same can be tracked inside or outside the system, and source document for monitoring the mitigation.

\*\*Frequency of meetings:\*\*

The Risk Management Committee would be meeting at least twice in a year and at such frequency as may be required under applicable statutory regulations, to review and update on the various risk elements identified as well as to present actions on the minutes recorded in previous meetings. The minutes of the same would be prepared and circulated for action by the Chief Risk Officer.

\*\*Retention of Risk management documents:\*\*

All documents pertaining to policy, framework, and auctioning of risk management would be preserved in a soft copy with proper controls. Hard copies would be taken out on a need basis by the Chief Risk Officer.

\*\*Reporting of risks, exposure, and mitigation plan to the Audit Committee:\*\*

The reporting of risks, exposure, and mitigation plan would be presented once a year to the Audit committee by members authorized by the Risk Management Committee.

\*\*Training and awareness of risks, controls, and mitigation plans:\*\*

The Risk officers, in consultation with the Risk Management Committee, will cover training of required people based on a need basis.p