Introduction

Oxford Dictionary defines the term “risk” as a chance or possibility of danger, loss, injury or other adverse consequences.

Risk management attempts to identify and manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Sub-clause VI of Clause 49 of the Listing Agreement states as under

“The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework”

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to smoothen the functioning of the corporate sector in India.

Risk Management

i). The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company’s business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.

It has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimize their adverse impact on the organization.
Risk Strategy:

AHMEDNAGAR FORGINGS LTD. (AFL) believes that risk is an integral and unavoidable component of business and is committed to manage the risk in a proactive and effective manner. The Company believes that the Risk cannot be eliminated. However, it can be

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky businesses;
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

In today’s challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk. For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the firm. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the firm and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

Risk Management Framework

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity’s mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into

**Strategic:**
- Organizational Growth.
- Comprehensive range of products.
- Growth of Strong relationships with dealers/customers/suppliers.
• Expanding our presence in existing markets and penetrating new geographic markets.

• Continuing to enhance our industry expertise.
• Enhance our capabilities through technology alliances and acquisitions.

**Operations:**
• Consistent Revenue growth.
• Consistent profitability.
• High quality production.

**Reporting:**
• Maintain high standards of Corporate Governance and public disclosure.

**Compliance:**
• Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/ standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary.

Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures. AFL adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Management Committee. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organization. We consider activities at all levels of the organization are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on three key elements, viz

1. Risk Assessment
2. Risk Management
3. Risk Monitoring.

**Risk Assessment**

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed.
Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks

To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management and Risk Monitoring

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. Economic Environment and Market conditions

Strategically, we seek to continuously expand the customer base to maximise the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of our record of satisfactory performance in our earlier dealings. The efforts to enhance quality of products and upgrading their performance parameters are aimed at deriving optimum value from the existing customer base and targeting a larger customer profile. Historically, the strength of our relationships has resulted in significant recurring revenue from existing customers.

To counter pricing pressures caused by strong competition, the Company has been increasing operational efficiency and continued to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.

2. Fluctuations in Foreign Exchange

Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to achieve greater predictability and stability.

3. Revenue Concentration

High concentration in any single business segment exposes the company to the risks inherent in that segment. We have adopted prudent norms based on which we monitor and prevent undesirable concentration in a geography, industry, or customer. The quest for diversified activities within the existing realm of overall management after due consideration of the advantages and disadvantages of each activity is consistent with company policy of increasing business volumes with minimum exposure to undue risks.
Concentration of revenue from any particular segment of industry is sought to be minimised over the long term by careful extension into other activities, particularly in areas the company has some basic advantage such as availability of land, technical or manpower resources.

4. Technological Obsolescence

AFL’s philosophy is to ‘Modernise, Indigenize, Never Compromise on Technology’

The Company strongly believes that technological obsolescence is a practical reality. Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology. The Company’s policies also include a favorable dispensation for replacement of Machinery and Equipment on a constant basis to take advantage of such technological movements.

5. Financial Reporting Risks

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are creating uncertainty for companies. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with Indian GAAP and in accordance with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances including consultation with experts in the field, scrutiny of published data for the particular sector or sphere, comparative study of other available corporate data, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks. We believe that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.
Risk of Corporate accounting fraud:

Accounting fraud or corporate accounting fraud are business scandals arising out of misusing or misdirecting of funds, overstating revenues, understating expenses etc.

The Company mitigates this risk by
- Understanding the applicable laws and regulations
- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives
- Instituting Whistleblower mechanisms
- Deploying a strategy and process for implementing the new controls
- Adhering to internal control practices that prevent collusion and concentration of authority

6. Legal Risk

Legal risk is the risk in which the Company is exposed to legal action.

As the Company is governed by various laws and the Company has to do its business within four walls of law, where the Company is exposed to legal risk exposure.

We have an experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments.

Management places and encourages its employees to place full reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company’s total compliance. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.


AFL’s Human Resources Development (HRD) Department will add value to all its Units and associate companies by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a
sense of belonging and commitment and also effectively train them in spheres other than their own specialisation. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to manufacturing procedures etc. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with job content, peer comparison and individual performance.

We seek to provide an environment that rewards entrepreneurial initiative and performance.

8. Disaster Risks:

   Natural risks like Fire, Floods, Earthquakes, etc.

Risk Mitigation Measures:

   • The properties of the company are insured against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice.
   • Fire extinguishers have been placed at fire sensitive locations.
   • First aid training is given to watch and ward staff and safety personnel.
   • Workmen of the Company are covered under ESI, EPF, etc., to serve the welfare of the workmen.

Disclaimer Clause

The Management caution its readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

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