



SOM Distilleries & Breweries Limited

Risk Management Policy

July 2015





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1. INTRODUCTION

Risk Management is a key aspect of the “Corporate Governance Principles and Code of Conduct” which aims to improvise the governance practices across the Company’s activities. Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

Paragraph (C) of sub-clause IV 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 the smooth functioning of the Corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009
(II) (C) Risk Management

- 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.
- 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.

2. OBJECTIVE

The objective of the SOM’s Risk Policy is to ensure:

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, in order to guide decisions on risk related issues





SOM recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

3. DEFINITIONS

"Audit Committee" means Committee of Board of Directors of the Company constituted under the provisions of the Companies Act, 2013 and the Listing agreement.

"Board of Directors" or "Board" in relation to a Company, means the collective body of Directors of the Company. [Section 2(10) of the Companies Act, 2013]

"Policy" means Risk Management Policy.

4. APPLICATION

This policy applies to all areas of the Company's operations.

SOM being a listed company, is required to adhere to the regulations made both by the Companies Act, 2013 and Clause 49 of the Listing Agreement governed by the Securities and Exchange Board of India (SEBI). Where any stipulation is common between the regulations, more stringent of the two shall be complied with.

5. ROLE OF THE BOARD

The Board will undertake the following actions to ensure risk is managed appropriately:

- The Board shall be responsible for framing, implementing and monitoring the risk management plan for the company along with formation of Risk Management Committee.
- The purpose of the risk management committee of the Board shall be to assist the Board with regard to the identification, evaluation and mitigation of operational, strategic and external environment risks.
- The majority of Committee shall consist of members of the Board of Directors. Senior executives may be members of the Committee but the Chairman of the Committee shall be a member of the Board of Directors
- Ensure that the appropriate systems for risk management are in place.
- Participate in major decisions affecting the organization's risk profile;
- Have an awareness of and continually monitor the management of strategic risks;
- Be satisfied that processes and controls are in place for managing less significant risks;
- Be satisfied that an appropriate accountability framework is working whereby any delegation of risk is documented and performance can be monitored accordingly;





- Ensure risk management is integrated into board reporting and annual reporting mechanisms

6. 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.

7. KEY RISKS AND CONCERNS:

- **Advertisements:**

Direct advertising of alcohol is banned in India. This creates a hurdle for of new brand building process as well as improving visibility of existing brands. The general strategy followed by the companies is to advertise using surrogate products (like glasses, mineral water, music items) having identical brand names.

- **Industry regulated by different State Governments:**

Since alcoholic beverages are a state subject, each of India's 29 states and 7 union territories has their own rules & regulations and duties & taxes. Thus, the distribution and sale of alcoholic beverage is controlled by state governments and in most of the state governments decide the End Consumer Price (ECP). Additionally, interstate movement is regulated and an export/import license is required. Export fee is imposed in the State where the product is manufactured and import fees in the State where it is sold. In some states, only the alcoholic beverage manufactured in that state can be sold. Independent licenses are required to produce, bottle, store, distribute or retail all liquor products.

- **Prohibition concerns**

Prohibition drives undertaken by the government from time to time such as the one taken by the Kerela government this year, could hamper sales.

- **Taxation**

Alcoholic beverages in India are taxed on ad valorem basis (no consideration of alcohol content) which makes beer an expensive drink compared with other spirits in terms of price per unit

- **Limited Markets**

Sale of liquor is also prohibited in the states of Gujarat, Manipur, Mizoram and Nagaland, which further puts hindrance for the growth of the industry





- **Economic Environment and Market conditions:** Economic slowdowns or factors that affect the economic health of our customers' countries may increase risk to our revenue growth.
- **Competition:** The markets for spirits, beer and beverage are rapidly evolving and highly competitive and we expect that competition will continue to intensify due to establishment of new capacities, expansion of existing capacities and consolidation of operation across the sector.
- **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.

8. Review

This policy shall be reviewed at a minimum at least every year to ensure it meets the requirements of legislation and the needs of organization. The risk management committee shall ensure that the Company is taking the appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities. The risk management committee shall make regular reports/recommendations to the Board.

9. OWNERSHIP OF RISK MANAGEMENT

The Risk Management is a very important function, which may have critical and severe impact on Business if not addressed appropriately in a timely manner. Accordingly, the activities relating to Risk Management is to be managed by a person having overall insight of the Business processes. The overall responsibility of risk management process will be with CEO / Business Head of the Company

This Policy will be communicated to all concerned persons of the Company and shall be placed on the website of the Company

