KGEPL-RISK MANAGEMENT POLICY

INTRODUCTION

Organizations of all types and sizes face internal and external factors and influences that make it uncertain whether and when they will achieve their business objectives. The effect this uncertainty has on an organization's objectives is “RISK”. Risk may be defined as events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization’s business objectives.

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. It is a holistic, integrated, structured and disciplined approach to managing risks with the objective of maximizing shareholder’s value. 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.

Section 134(3)(n) of the Companies Act, 2013 requires the Company to frame a Risk Management Policy to identify various elements of internal and external risks and steps to mitigate the same. The purpose of this policy is to articulate our approach and expectations in relation to the management of risk across the organisation.

OBJECTIVE

KGEPL`s prime objective of this Risk Management Policy and Procedure is to ensure sustainable business growth with stability. This policy is to enable the Company to develop a comprehensive focus on various risk management activities of the company and provide the details of the Risk Management Framework.

The specific objectives of the Risk Management Policy are:

- To achieve the strategic objective while ensuring appropriate management of risks and protection of stakeholder value
- To integrate risk management in the culture and strategic decision making in the organization.
- To help the decision makers of the organization explicitly take account of uncertainty, the nature of that uncertainty, and work towards a solution to address it
- To ensure that the current and expected risk exposures of the organization are identified, qualitatively and quantitatively evaluated, analyzed and appropriately managed
- To enable compliance with the relevant legal and regulatory requirements and adoption of good governance practices.

THE RISK MANAGEMENT FRAMEWORK

The purpose of risk evaluation is to assist in making decisions, based on the outcomes of risk analysis, about which risks need treatment and the priority for treatment implementation. KGEPL is committed to managing the risk in a proactive and effective manner, enabling future activity to take place in a consistent and controlled manner.

Though risk cannot be eliminated the under mentioned activities may be done to mitigate the risk:

- Risk Transfer: Risk is transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract. It is the process of sharing the risk with another party, the burden of loss or the benefit of gain, from a risk.

- Risk Retention: Risk is retained to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk. It involves accepting the loss, or benefit of gain, from a risk when it occurs. Risk vs cost/benefits is analysed on a continuous basis and where the risk loss is lesser than associated cost to be incurred /benefit to be lost, appropriate decision is taken to either transfer risk or retain risk. All risks that are not avoided or transferred are retained by default.

- Risk Avoidance: The risk is avoided by not entering into risky business transactions.

- Risk Reduction: Risk reduction or "optimization" involves reducing the severity of the loss or the likelihood of the loss from occurring.

- Acknowledging that risks can be positive or negative, optimizing risks means finding a balance between negative risk and the benefit of the operation or activity; and between risk reduction and effort applied

RISK IDENTIFICATION

KGEPL is focussing mainly on Bio Ethanol projects for blending in petrol and the following are the major risks associated with such industry :

1. Unstable nature of the Ethanol Industry

The Indian distillery sector is highly cyclical in nature and is sensitive to Government policy and weather conditions. Changes in government policies, subsidies, tax incentives, and regulatory frameworks can significantly impact the ethanol industry. Shifts in mandates for ethanol blending with petrol or changes in import/export regulations can affect demand and supply dynamics. Political shifts or policy reversals can lead to sudden changes in market conditions, impacting industry stability.

Parent Entity KRIBHCO plays a major role in the field of agriculture and is recognized as a key player with its own standing as an important national organization in the field of agriculture and has close interactions with Government at Centre and State and has extensive experience in dealing with subsidies, regulatory and policy nuances. KGEPL and parent entity KRIBHCO together will evolve plans from time to time to mitigate any shifts so that the risk associated with this are minimized.

2. Process Technology Risks

Technological advancements in ethanol production processes are crucial for improving efficiency and reducing costs. Companies that fail to adopt or invest in new technologies may face competitive disadvantages.

KGEPL is putting up a state of the art Bio Ethanol Project and hence the production process is very updated with latest improvements which are of recent origin. Also the specifications of various plant and equipments and the processes have been finalized and being implemented with the help of leading Project Management Consultant (PMC) and LSTK contractor who possess the required experience in providing a state of the art plant. The Process Technology is domestically available and no licencing concept/technology transfer is involved in the process and hence allows flexibility to KGEPL with no pre conditions attached for making any change in process. Further KGEPL is to employ quality and experienced personnel from the distillery sector to man the plant and this will help mitigate the risks associated with process technology etc. The LSTK Contract provides for minimum performance guarantee for various aspects covering energy, output, input ration etc. as well as the equipments are having stringent specifications and are being procured from pre-approved sub vendor lists which have been listed based on recommendation of PMC.

3. Raw Material and Inputs supply Risk

Ethanol production in India primarily relies on feedstocks like maize, sugarcane, molasses, and grains. Fluctuations in availability, quality, and price of these raw materials due to weather conditions, agricultural policies, or market dynamics can affect production costs and profitability. Changes in weather patterns, government policies, or shifts in consumer preferences can impact the availability and pricing of the raw material and other inputs.

KGEPL is mitigating this risk by following robust procurement process and transparent price discovery apart from building grain silo of required level for storing. KGEPL has also registered in various eMarketplace portals for such procurements for availing round the clock availability of raw material. Parent Entity KRIBHCO`s linkage with farmers, FPOs, Cooperative Societies, Bulk traders and trading channels will provide robust mechanism for ensuring continued availablity of feedstock at optimum prices to KGEPL. Wherever needed a stable, long-term supply agreements for feedstocks will also be used to mitigate risks associated with seasonal fluctuations or market uncertainties.

4. Accidental Risk

Due to its highly flammable nature, ethanol carries a substantial risk of causing fires and explosions and environmental risks which can occur at on-site. Apart from the risk on-site risk, various risk can also occur off-site such as risk such as transportation risk, accidents during the transportation of the ethanol from the factory,etc.

KGEPL `s Bio Ethanol plants have been put up with latest fire fighting facilities and is using Zero Liquid Discharge methodology, critical equipments have been sourced from high quality suppliers and have been inspected and certified by leading third party Inspection Agency M/s Lloyds Register Quality Assurance (LRQA) etc so as to minimize such risk occurences. KGEPL is mitigating the above risks by suitable monitoring mechanism in place apart from adequate insurance coverage.

5. Business Risk/Price Volatility

Ethanol prices can be volatile due to factors such as fluctuations in crude oil prices (since ethanol is blended with petrol), changes in global agricultural commodity prices, regulatory environment, market speculation etc.. This volatility can impact revenue and profit margins of ethanol producers.

KGEPL has already entered into Long Term Offtake Agreements with PSU Oil Marketing Companies for a period of ten years for both Hazira and Nellore projects. This protects the marketing risk and the prices of Ethanol produced from different grains are fixed by Oil Marketing Companies /GOI duly taking into the price fluctuation in input prices for the relevant period. KGEPL is also setting up a robust mechanism for tie ups for selling its buy product DDGS. KGEPL has also designed a CO2 Recovery plant on BOOT basis for ensuring the compliance of Environmental Clearance and provide a separate revenue stream for fifteen year period at agreed prices.

6. Operational risk

The production units are dependent on adequate and uninterrupted supply of electricity and power, stream and fuel., manpower, risks associated with hazardous materials, smooth functioning of plant and equipment etc.

KGEPL Plants are having latest state of art equipments and adequate compliances levels are in place for regulating and minimizing the above risks with its experienced manpower and quality maintenance programme and hence these risks are will mitigated. ERP system is in place for optimal use of Enterprise Resources.

7. Compliance and Regulatory Risks

The Company is subject to increasingly stringent environmental, health and safety laws, regulations and standards. Non-compliance with and adverse changes in health, safety, labour, and environmental laws and other similar regulations applicable to the Company's operations may adversely affect the business, results of operations and financial condition.

KGEPL has already obtained/submitted for approvals from regulatory agencies for complying with all regulations. KGEPL is also monitoring the compliances with the help of robust software "Compliance Management Automation Software" which also will have regular updates.

8. Cyber-attack and data leakage

Increasing concern for user data privacy, data leakage, and number of cyber-attacks are the reason for rising attention to the question of data security.

The various softwares and ERP being used in KGEPL will have all necessary protections in this regard. KGEPL will also be availing The increasing number of devices connected to the Internet not only creates more data but also makes it more vulnerable and not very well protected. It is expected that security analytics costs will raise up. Thus, it is critical to keep up with the latest trends in the field of data security.

POLICY REVIEW AND AMENDMENTS

In case of any conflict between the provisions of this Policy and of the statutory provisions, the statutory provisions shall prevail over this Policy. Any subsequent amendment/ modification in the statutory provisions shall automatically apply to this Policy.

The Policy shall be reviewed from time to time and any changes or modification to the Policy shall be recommended by the Board and be placed in the meeting of the Board of Directors for approval.