Balancing risks and opportunities

We have a well-established Risk Management system that tracks, targets, and mitigates existing and emerging risks.

Guiding principles

At SCL, risk management is guided by a set of principles that ensure that the procedure abides by the following parameters:

Shareholder value based

Risk management will be focused on sustaining the creation of shareholder value and protecting the same against erosion.

Embedded

Risk management will be embedded in existing business processes to facilitate management of risks across processes on an ongoing basis.

Supported and assured

Risk management will provide support in establishing appropriate processes to manage current risks appropriately, and assure the relevant stakeholders over the effectiveness of these processes.

Reviewed

The effectiveness of the risk management programme will be reviewed on a regular basis to ensure its relevance in a dynamic business environment.

Approach to risk management

We have adopted a top-down approach for identifying and managing risks across the organisation. In the top-down approach, the principal challenges impacting the achievement of the organisational objectives have been articulated. Accordingly, the risk library comprises key strategic and business risks applicable. Initially, mitigation plans would be drawn up only for Risks That Matter (RTM), which would then be extended to all the risks identified over a period of time.

Risk governance framework

Board of Directors

- Audit Committee
- Compliance Team

- Human Resources
- Finance and Taxation
- Plant Operations
- Secretarial
- Other Functions

Our Risk Team is headed by the JMD/CFO, and comprises all heads of processes, together with the Company Secretary. The team reviews the day-to-day risks of the organisation and conducts a risk review meeting once a quarter to analyse the effectiveness of risk mitigation plans. Following the evaluation, new set of risks can be identified and their mitigation strategy is decided.

A report on the status of the remediation plans and the current RTM is presented to the Audit Committee every quarter. An annual status of risk management, along with the status of risk remediation plans, are also presented to the Board of Directors on an annual basis.

Risk Management process

An effective risk management process requires consistent assessment, mitigation, monitoring, and reporting of risk issues across the length and breadth of the enterprise. Essential to this process is a well-defined methodology for determining the corporate objectives and strategy. At SCL, this entire process is aligned with the annual budgeting processes, and each business function is required to present the results of the risk management exercise as a part of their respective budget presentation.

Three-step risk management process:

Each step has its own detailed sub-steps that ensure that risk management is methodically undertaken, regularly reviewed, and improved upon.

Classification of risks

We have classified our risks under four categories – strategic risks, financial risks, operational risks, and legal and compliance risks. Once we have identified the various risks under these categories, we begin the process of monitoring them, and mitigating their impact.

1 Risk assessment and reporting → 2 Risk mitigation → 3 Risk monitoring and assurance

STRATEGIC RISKS

The strategic focus of the organisation is driven by stakeholder expectations, industry outlook, market dynamics, and the way the organisation is governed and guided. This category covers risks that may impact the strategic focus and future of the organisation.

Stakeholders

The stakeholders of an organisation usually comprise its employees, shareholders, customers, suppliers, business partners, the community in which it operates, and the government (including regulatory bodies). This category, therefore, covers the risks related to shareholder confidence, changes in government policies, over-dependencies on customers and suppliers, and ineffective business partnerships.

Governance

Governance signifies the way an organisation is led and managed in the pursuit of its objectives. This category would cover risks, which may arise due to inappropriate strategic focus/ direction or resource allocation, inadequacy of business monitoring, actions impacting the reputation of the Company, or the improper/immoral conduct of employees.

Market structure

Market structure refers to the dynamics of the industry, country, and economy in which the organisation operates. This category would include risks arising due to adverse changes in the economic, political, social, or competitive environment in which the organisation operates as well as its ability to influence the market structure.

FINANCIAL RISKS

Financial risks include risks related to the manner in which a corporate raises and manages its finances, plans its taxes, and reduces uncertainty due to market movement of currency, interest rates, and commodity prices. This category of risks also includes risks arising due to frauds and errors.

Capital structure

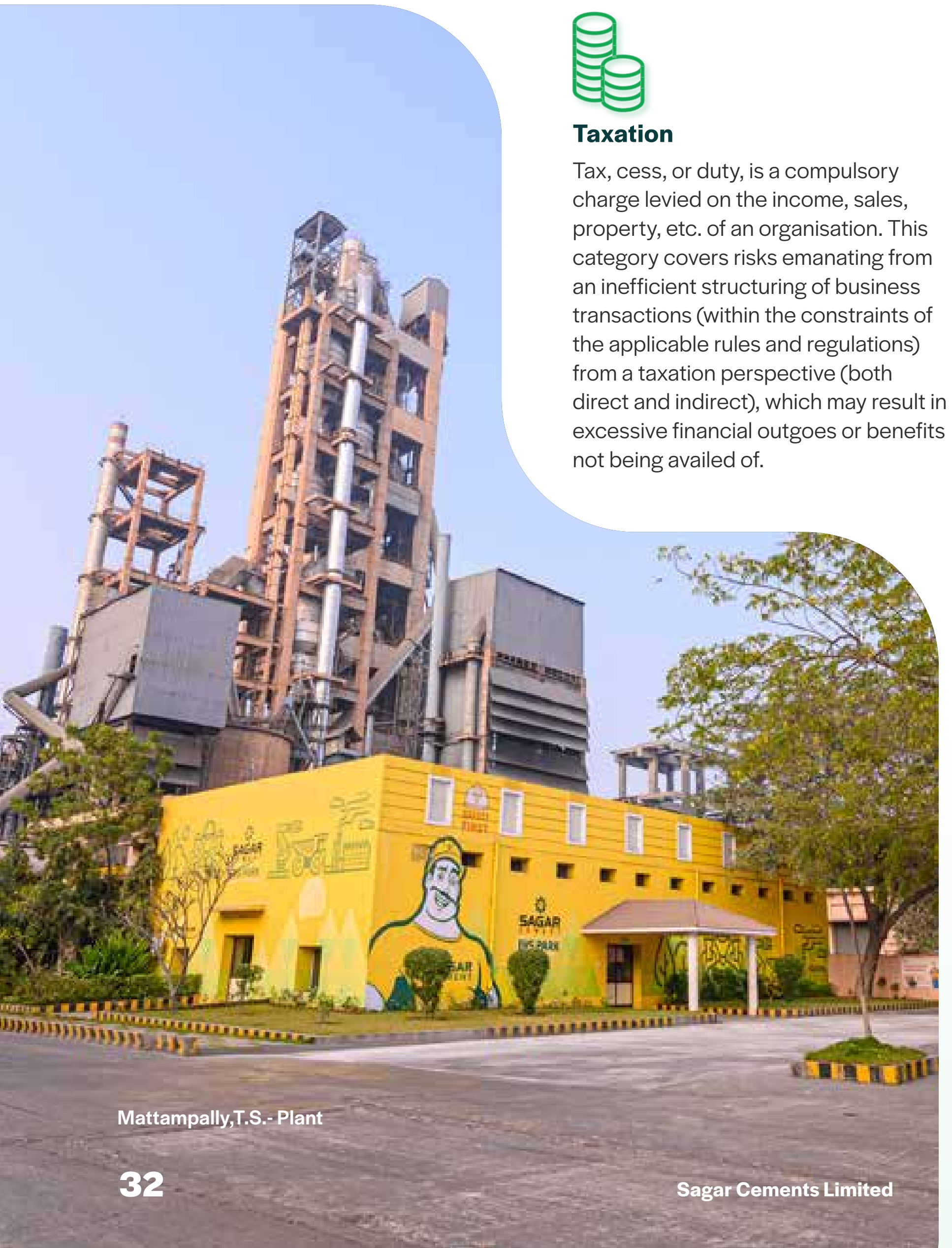
Capital signifies the monetary resources an organisation requires to sustain its operations, and fuel its future expansion. This category covers risks that may impact the organisation's ability to acquire an appropriate and cost-effective mix of such resources, in line with its requirements.

Liquidity and credit

Availability of funds for day-to-day operations is a key requirement for the smooth functioning of an organisation. This category would cover risks that may arise due to insufficient realisations and/or improper management of funds to further current and future business objectives.

Market

Markets represent a buyer/seller network for the exchange of capital, credit, and resources. This category would include risks emanating from adverse commodity price changes, exchange rate movements, and interest rate change.



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Taxation

Tax, cess, or duty, is a compulsory charge levied on the income, sales, property, etc. of an organisation. This category covers risks emanating from an inefficient structuring of business transactions (within the constraints of the applicable rules and regulations) from a taxation perspective (both direct and indirect), which may result in excessive financial outgoes or benefits not being availed of.

Fraud and error

A fraud involves the use of unjust or illegal means to gain financial advantage by intentional misstatements in, or omissions of amounts or disclosures from, an entity's accounting records or financial statements. It also includes actions, whether or not accompanied by misstatements of accounting records or financial statements, committed for personal gains. On the other hand, an error is an unintentional misrepresentation of facts. This category would cover risks that an organisation may face in the event of a fraud or error, with or without collusion with external parties.

Exchange rate fluctuations

The Company's business activities, inter alia, include import of materials, such as coal and pet coke, and capital equipment, such as machineries for mining, cement manufacturing, power generation plants, etc. which are linked to international prices and major international currencies. As a result, we are exposed to exchange rate fluctuations on imports and exports. The impact of these fluctuations on the Company's profitability and finances is considered material.

OPERATIONAL RISKS

Operations refer to the activities of the organisation in harnessing its resources to execute its business model. This category of risks includes risks related to resources and processes, which come together to create products and services that satisfy customers and help achieve the organisation's quality, and cost & time performance objectives.

Assets

The assets of the organisation are the physical and intellectual resources available to it, which facilitate its business processes in the achievement of its objectives. This category includes risks that have an impact on the availability and value of the organisation's assets, including plant, property, equipment, IT systems, and intellectual property.

Crisis

Crisis emanating from natural calamities or manmade disasters is inherent in the business. Crisis risks cover risks that arise due to earthquake, floods, drought, terrorism, hostile community action, and similar events as well as factors such as sabotage by employees, hostile government action and their implications resulting in business discontinuity, disruption of operations, loss of valuable customers, etc.

Process

An organisation undertakes business processes to create products and services, and deliver them to customers. This category includes those risks that arise due to inefficiencies in, or interruptions to, these processes.

Information and knowledge

While running its business operations, an organisation captures information and creates knowledge. Knowledge and informational risks are those that arise due to inefficient capturing, utilisation, and protection of knowledge.

Human resources

Employees and managers help manage the organisation, leverage its assets, and operate its business processes. This category includes risks related to the inappropriateness of the organisational structure, inadequacies in training and development of employees, attrition, inadequate succession planning, and lack of requisite knowledge, skills, and attitude in the employees, which may impact the successful execution of the organisation's business model, and achievement of critical business objectives.

LEGAL AND COMPLIANCE RISKS

The organisation operates in a legal and regulatory framework that imposes certain obligations on it, and helps protects its rights. This category of risks includes risks that arise when an organisation is unable to fulfil its legal obligations or protect its rights.

Legal

Legal risks arise when an organisation does not comply with its enforceable commitments to counterparties, or is unable to enforce its rights against counterparties. These risks would include exposure of the organisation to litigation or its inability to protect its rights through litigation. It will also include exposure on account of inadequate representations and warranties from third parties for fulfilling obligations, arising out of the legal agreements entered with them.

Regulatory

Regulatory risks are those that arise on account of regulations imposed by the government, which may affect the organisation's competitive position or its capacity to efficiently conduct business. This category also includes the risks of penalties and prosecution, which may arise on regulatory non-compliance.