



# Risk management

Efficient risk management minimises the impact of events that could have a detrimental effect on the organisation. SGC achieves this through a strong Board oversight on the process of monitoring, evaluating, and treating risks and making risk management a part of its everyday functioning.

Our robust risk-management framework enables a culture of informed and responsible risk-taking through systematic and proactive identification of risks, assessment, treatment, monitoring and reporting. Strong oversight is established for the entire risk management programme by the Board and senior management.

## Guiding principles

At SGC, risk management is guided by a set of principles that ensure 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.



## Risk management framework





## Risk management

### Approach to risk management

We have implemented a top-down approach to identify and manage risks throughout the organisation. This method involves initially identifying the primary challenges that could affect the realisation of organisational objectives. Consequently, the risk library encompasses key strategic and business risks that are relevant. Initially, mitigation plans are developed specifically for Risks That Matter (RTM), and these plans are gradually extended to cover all identified risks over time.

The Risk Team, led by the JMD/CFO and inclusive of all process heads and the Company Secretary, oversees the daily risks within the organisation. Additionally, the team conducts a quarterly risk review meeting to assess the efficacy of existing risk mitigation plans. Through this evaluation process, new risks may be identified, and strategies for their mitigation are determined.

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

A successful risk management process necessitates ongoing assessment, mitigation, monitoring, and reporting of risk issues throughout the entire enterprise. A crucial aspect of this process involves a clearly defined methodology for establishing corporate objectives and strategy. At SGC, we integrate this entire process with our annual budgeting procedures. Each business function is mandated to incorporate the outcomes of the risk management exercise as an integral component of their respective budget presentations.



### Types of risk



Gudipadu, A.P. Plant



## Risk management

### 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.

#### Consolidation and intense competition

##### Description

- Intense competition leading to cement pricing not moving in tandem with inflation resulting lower margin for cement companies
- Continuous expansion and consolidation in the Industry might impact market share of Sagar Cement
- Failure to effectively compete could have a material adverse impact on the business performance of Sagar Cement
- Failure to meet sales target to achieve desired growth in sales

##### Mitigation

- Aligned marketing strategy to maintain current market share and strive for expansion in new markets
- Continuous adoption of new ways to engage with customers and maximise brand visibility
- Monitor market trends and competitors

##### Rating

↑ High

#### Region dependency

##### Description

Market slowdown in the Southern region may significantly impact the company's performance.

##### Mitigation

- New plants at Jeerabad and Jajpur allow us to increase market presence at serving geographies
- To maintain our current market share, our promotional and branding efforts in the regions where we are already established

##### Rating

↑ High



## Risk management

### Financial risks



Financial risks include risks related to the way 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 fraud and errors.

#### Market volatility

##### Description

- Adverse impact over organisation brand position due to market volatility
- Challenges in raising capital for funding growth opportunities

##### Mitigation

- Regularly monitor the market conditions as capital raising is dependent on macroeconomic factors and capital market conditions
- Conduct valuations from time to time for assessment as to whether the outcome is favourable

##### Rating

↑ High

#### Treasury management

##### Description

- Insufficient return on surplus funds or safety of investment leading to minimisation of return to shareholders
- Higher cost of capital due to suboptimal utilisation of funds and mix of capital source structure

##### Mitigation

- Robust monitoring of fund needs over short/ medium and long-term periods
- Maintaining the debt-equity ratio and Interest coverage ratio

##### Rating

↑ High



## Risk management

### 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, and time performance objectives.

### Health and safety

#### Description

- Occurrence of accidents, incidents and occupational hazards leading to loss of human life, machines and impact on local communities
- Fire, explosion, contamination or release of dangerous gases from use of hazardous materials
- Penalty, fines, closure, strike, agitation due to these incidents

#### Mitigation

- Formation of plant level safety committee to specifically focus on occupational health and safety aspects
- Continuous review and strengthening of occupational health and safety practices
- Keep hazardous materials in well-maintained storage areas with good ventilation and drainage, as well as ensure appropriate emergency equipment is available
- Good housekeeping practices (routinely and thoroughly check the state of containers for any holes, leaks, signs of rust or rot, missing labels and always keep things as neat and clean as possible)
- Check both container labels and Materials Safety Data Sheets (MSDS) before starting any job involving hazardous materials

#### Rating

↑ High



## Risk management

### Operational risks

#### Fuel procurement

##### Description

- Fail to sustain operations due to unavailability of fuel or availability at exorbitant prices

##### Mitigation

- Increase use of alternate fuel of 25% by 2030 and 50% by 2050. We are building feeders for alternative fuel consumption across all the plants which allow it to choose the type of fuel basis the availability and cost. This helps it to remain competitive on fuel cost front
- We will get maximum utilisation from Fuel Supply Agreement (FSA) for the coal and prepared for timely renewal to secure availability of coal

##### Rating

⬆️ High

#### Brand positioning

##### Description

- Fail to align consumer perception in line with its vision and business plan leading to negative impact on net cement realisation
- Fail to create brand in market which can pull customer interest leading to lower price realisation than peers

##### Mitigation

- We intend to increase our spend on brand equity over the period to improve and consolidate Sagar Cements brand position
- Continuous adoption of new ways to promote brand and maximise visibility on sustainable basis

##### Rating

⬆️ Medium

#### Succession planning

##### Description

- Loss of knowledge and experience from sudden exit / retirement of skilled or specialised employees
- Poor succession planning process results in selecting the wrong candidate
- Impact on business due to non-identification or selection of suitable candidate for succession

##### Mitigation

- Developing a roadmap and framework for the identification of critical positions, possible successors, their development plans and gap analysis
- Regular efforts are being made to train the employees and make them future ready

##### Rating

⬆️ Medium



## Risk management

### Operational risks

#### Supply chain – logistics cost

##### Description

- Ineffective supply chain leading to higher logistics cost and hampering profitability
- Failure to meet delivery commitments leading to loss of sale and customers

##### Mitigation

- We will map our logistics into Rail and Road category to compare and arrive the optimal cost of logistics to minimise it
- We will continue to keep the average lead distance below 300 kms for optimum logistics cost

##### Rating

**Medium**

#### Asset management

##### Description

- Failure to perform regular maintenance for assets leading to frequent breakdowns and decrease in life of assets
- Lack of cost competitiveness due to technology related issues like old equipment's (increased variable cost of power, fuel etc)
- Failure to provide physical protection for its long-lived assets

##### Mitigation

- Performing periodic detailed equipment Risk assessment analysis to identify the potential equipment failures to be taken care as apart of maintenance activities (In-House)
- Detailed performance monitoring mechanism to be put in place for all spares and consumables equipment wise in all facilities including tracking of mean time to repair, mean time between failures, occupancy rates etc.

##### Rating

**Medium**



## Risk management

### Compliance risks



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

### Climate change

#### Description

- Company's failure to meet carbon reduction targets imposed by government
- Government may bring in regulations impacting operations continuance with the current level of carbon emissions
- Enhanced scrutiny by investor community, proxy firms including shareholders over climate change action which may impact market capitalisation

#### Mitigation

- Reduce energy intensity by use of energy efficient processes and equipment and their continuous upgradation
- Establish systems for monitoring and conducting periodic reviews of receipts, generation and consumption of all forms of energy
- Benchmark our performance with the best standards, set targets, document and communicate at all levels and provide resources to achieve targets
- To reduce CO<sub>2</sub> intensity by adopting the best technologies and practices across all functions—from manufacturing to distribution
- To reduce energy intensity while continuously increasing the ratio of green energy and alternate raw materials and fuels
- Minimising transport emissions by gradually migrating to environment-friendly modes such as Green transport vehicles
- Measurement and monitoring of water sourcing and consumption
- Implement ISO 20400 sustainable procurement in the near term

#### Rating

↑ High



## Risk management

### Compliance risks

#### Sustainability

##### Description

- Risk of non-compliance with regulatory, societal and investor expectations of corporate and environmental sustainability
- Risk of governance, sustainability or societal factors affecting financial condition or operating performance of the business
- Poor/ average ESG rating standards may cause lack of interest/ exit of marquee investors in the Company

##### Mitigation

##### Environment

- Conserving and preserving the natural environment across the length of the business value chain
- Preserving endemic, threatened or endangered species and protecting the natural habitat around the plant premises

##### Social

- Ensure Zero fatalities
- Continually improve the safety management system by carrying out regular safety audits
- Start a skill development training centre by 2030
- Focus on building stronger bonds and relationships with its customers and partners

##### Governance

- Consistently working towards meeting regulatory and compliance obligations, while aligning with the best practices of transparency and accountability
- Timeliness of response for whistle-blower incidents

##### Rating

↑ High