SHYAM METALICS AND ENERGY LIMITED

RISK MANAGEMENT POLICY

1. PREAMBLE

The Risk Management Policy ("**Policy**") is formulated in compliance with Regulation 17(9) read with Regulation 21 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**the Listing Regulations**") and Section 134(3) of the Companies Act, 2013 ("**the Act**"), which requires Shyam Metalics and Energy Limited ("**the Company**") to lay down procedures about risk assessment and risk minimization, enhancing the operational effectiveness and creating wealth for employees, shareholders and stakeholders in pursuance to the strategy.

2. OBJECTIVE

In line with the Company's objective towards increasing stakeholder value, a risk management policy has been framed, which attempts to identify the key events / risks impacting the business objectives of the Company and attempts to develop risk policies and strategies to ensure timely evaluation, reporting and monitoring of key business risks. Some of the basic objectives of this Policy are:

- To ensure a risk management system as per the requirement of the Company.
- To establish a framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability [particularly, Environmental, Social and Governance (ESG) related risks), information, cyber security risks or any other risk as may be determined by the Risk Management Committee.
- To ensure measures for risk mitigation including systems and processes for internal control of identified risks.
- To design Business Continuity Plan.
- To smoothen the business process by apt handling of risks involved.

3. RISK MANAGEMENT COMMITTEE

Top 1,000 companies based on market capitalization as on 31st March, 2021 are required to constitute a Risk Management Committee with effect from 5th May, 2021.

The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director. The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.

The risk management committee shall meet at least twice in a financial year. The quorum for a meeting shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance. The meetings shall be conducted in such a manner that on a continuous basis not more than Two Hundred and Ten (210) days shall elapse between any two consecutive meetings.

The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.

In compliance of the provisions of Listing Regulations and applicable provisions of the Companies Act, 2013 and rules made thereunder, the Board at its meeting held on 15th March, 2022 has constituted Risk Management Committee.

4. RISKS AND MITIGATION STRATEGIES

The business of the Company is susceptible to certain risks and uncertainties arising out of the macroeconomic factors. The key risks faced by the Company and their mitigation strategies inter-alia are as follows:

4.1 Operational Risks

4.1.1 Commodity risks

Raw materials (mainly coal and iron ore) are a significant contributor to the input cost in steel making. These commodities have global supply chains and their prices get impacted by various factors such as dynamic geopolitical landscape, supply-demand imbalance, weather patterns, policy interventions by governments in key sourcing/ consuming countries (especially China), etc. The profitability can get significantly impacted due to the volatility in raw material prices.

Key Mitigation Strategies

- There is a significant co-relation between raw material and steel prices. The balance risk is addressed through matching the sales tenure with the procurement tenure either through physical contracts or through use of hedging instruments. For this, various predictive analytics tool has been developed to have advance information on price direction for optimising buying decisions. Moreover, domestic raw materials are kept to guard against volatility as they have relatively stable cost.

4.1.2 Supply Chain Risk

Volatility in supply chains poses a risk to the Steel industry. The supply chain is highly susceptible to disruptions caused by natural disasters, political instability, trade wars, economic downturns, and technological disruptions. Natural disasters such as floods, earthquakes, and hurricanes can damage infrastructure, disrupt transportation, and cause shortages of raw materials. COVID was a case in point to substantiate the risk to the industry on this account. Additionally, geopolitical tensions and fragmentation can disrupt supply chains, increase trade barriers, and escalate uncertainty, affecting the Company's operations and profitability.

Key Mitigation Strategies

- The Company has robust and resilient systems in place to source raw materials from diversified sources to consistently produce stainless steel.
- The Company's ability to adapt swiftly to changing geopolitical dynamics also allow us to bolster resilience in an ever-evolving global economic landscape.
- The Company has taken steeper targets to shorten the supply chain, and started parallel projects to develop domestic substitutes in place of time taking imports. Suppliers' yards are negotiated to be moved closer to our factories.
- Creating comprehensive risk management plans that account for potential supply chain disruptions is essential.
- Diversifying suppliers and employing just-in-time inventory strategies.

4.1.3 Unfavourable Trade Measures

Withdrawal of favourable trade measures such as minimum import prices, anti- dumping laws, countervailing duties and tariffs, trade restrictions may have an adverse impact on the Company. There exists a possibility of a change in the overall duty structure on key raw materials/finished goods by the Government. Non anti- dumping duty on cheap imports and duty on exports from India can materially affect the profitability and operations of the Company.

Key Mitigation Strategies

- The Company stays informed about market dynamics, regulatory changes and emerging trends in the steel industry. Being adaptive and responsive to changing circumstances is essential for

effectively mitigating risks associated with non-anti-dumping of goods by steel companies in India;
- Diversification of export markets for Indian steel products to reduce reliance on any single market. This can help mitigate the impact of anti-dumping measures imposed by any particular country or region;
- The Company monitors the imports of steel products into India and assessing whether there are any unfair trade practices such as dumping or subsidies by foreign steel producers; and
- The Company works with industry associations and trade bodies to advocate for measures that protect the interests of the domestic steel industry.

4.1.4 Information Technology (IT) Security Risks

A significant risk lies in potential cyberattacks targeting its manufacturing process control systems. With modern industries relying heavily on interconnected technologies, malicious actors could exploit vulnerabilities to gain unauthorised access to critical systems. Such attacks could disrupt production, lead to equipment malfunction, or cause physical damage, resulting in operational downtime, financial losses, and compromised product quality.

Key Mitigation Strategies

- Adequate network security measures;
- Regular system updates;
- Employee training;
- Robust incident response plans; and
- Safeguarding manufacturing processes from cyber threats and prioritizing data security.
- Some of the corporate systems which were On-Premise have been migrated to Cloud.

4.1.5 Human Resources Risks

Any labor dispute or social unrest in region where the Company operates may adversely affect its operations and financial condition and inability to attract and retain employees, may affect the Company's business and prospects.

Key Mitigation Strategies

- Building relations with key stakeholders including local/regional prominent people, interest groups and bureaucracy across levels of administrative machinery (taluka to state level) to address labour or social unrest;
- Succession planning for Senior Management to ensure continuity in business; and
- People related policies for attracting and retaining talent.

4.2 Regulatory Risks

Regulatory risk including change in laws and regulations may materially impact a security, business, sector, or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of an investment, or change the competitive landscape in a given business sector. In extreme cases, such changes can dampen a company's growth prospects.

Key Mitigation Strategies

- The Company is committed to complying with existing laws and regulations and have a policy of zero tolerance to non-compliance.
- The Company continues to update the business policies to ensure compliance with government or market regulator standards and regulations;
- Dialogue with regulatory authorities for greater clarity and availing legal consultations for timely clearances; and
- Working with industry associations towards simplification of rules, a predictive policy regime and transition time for regulatory changes.

4.3 Financial Risks

Liquidity risk: Since the Company operates a capital intensive industry, therefore non availability of credit from suppliers/ banks etc. can result in low liquidity which can hamper the manufacturing operations/profitability/diversification plans of the Company.

Fluctuation in Foreign currency: Since the Company's imports and exports are substantial, any fluctuation in the exchange rates can impact the costing/ competitiveness of the Company's products and consequently the profitability of the Company.

Interest rate risk: The Company is exposed to changes in interest rates through bank borrowings. Any increase in the interest rate would put pressure on the margins.

Key Mitigation Strategies

- Liquidity Risk Management: Management monitors rolling forecasts of the Company liquidity position and cash and cash equivalents on the basis of expected cash flows. The Company takes into account the liquidity of the market in which the entity operates. Further, it also monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls;
- Foreign Currency Risk Management: For exposure to foreign exchange risk, the Company adopts the policy of selective hedging based on risk perception of management. Foreign exchange hedging contracts are carried at fair value; and
- Interest Rate Risk Management: The Company continuously monitors the interest rate and negotiates with the banks for lower interest rate.

4.4 Sustainability Risks

4.4.1 Greenhouse Gas Emissions & Climate Change Management

The Company operates in an energy-intensive sector due to the nature of its operations. Greenhouse gas (GHG) emissions stem from the Company's facilities, arising from fuel consumption in steel production, purchased electricity usage, and throughout the value chain. The main sources of direct emissions include fuel consumption in various operations such as the Steel Melting Shop (SMS), Rolling operations (both hot and cold), captive power plant, and ferro alloy processing.

Key Mitigation Strategies

- The Company continuously strives to seek Best Available Technologies (BAT) which are sustainable and more eco-friendly;
- Reducing fossil fuel-based energy use in our operations by using innovative energy efficiency technologies and process optimization; and use of Science based Technology initiative (SBTi)
- Shifting to renewables and/ or low carbon solutions where possible.
- As part of our risk management strategy, the organization prioritizes the use of renewable energy sources, solar and wind power, to mitigate environmental risks and reduce its carbon footprint.

4.4.2 Water Management

The operational activities of the Company involve processes in which water is an indispensable input. Thus, it is even more important to regulate the water consumption. Non-compliance to the regulatory requirement may lead to financial loss due to stoppage of operation and withdrawal of license to operate.

Key Mitigation Strategies

- Addressing water scarcity through principles of Reduce, Reuse, Recycle and Recover using best technologies;
- Minimizing withdrawal of fresh water by maximizing the recycling of treated waste effluents within the plant;
- Rainwater harvesting at plant;
- Strengthen of water recycling and implementation of zero liquid discharge (ZLD) technologies at plant sites; and
- Carrying out detailed water ~~risk~~ assessments to identify water losses and opportunities for water savings.

4.4.3 Air Emission Management

Non - compliance of the regulatory requirement leading to air pollution at the plant sites of the Company may have an adverse impact on the health and safety of employees, workers, suppliers, environment and society, financial loss by levying fines or penalties, disruption in operations, etc.

Key Mitigation Strategies

- Well-designed state-of-the-art air pollution control devices (APCD) are in place;
- Effective fugitive emission management; and
- Continuous monitoring and reporting the air quality.

4.5 Health and Safety Risk

The Company has a large number of employees and workers working at its various plants, who constantly devote their efforts towards the success of the Company. Therefore, it is critical to ensure well-being of the employees / workers and communities. Any significant safety incident / adverse regulatory order may lead to disruption in operations. Each incident has a negative impact on the health, well- being, morale of the employees / worker and reputation of the Company.

Key Mitigation Strategies

- Measurement of the safety performance statistics, which includes KPIs like fatalities, Lost Time Injury Frequency Rate (LTIFR), High-consequence work- related injury, Recordable work-related injuries, first aid cases, etc.;
- Multiple training to its employees for meeting the safety requirements. In terms of occupational diseases, workers in dust-prone areas and high decibel areas periodically undergo Spirometry and Audiometry tests at OHC center;
- Conducting pre-employment and periodic medical tests from time to time for both newly joined and existing employees;
- Implementation of occupational health and safety management system through ISO 45001:2018
- Adoption of 4-E (Engineering Control, Education, Encouragement & Enforcement) principle;

5. RISK MANAGEMENT FRAMEWORK

A risk is a potential event that negatively affects the achievement of the vision, mission, goals and targets of the Company or organizational unit. Risk Management is an attempt to minimize the negative effects from the various sources of risks to the Company's business activities so that objectives can be achieved optimally.

Risk management is a continuous process that is accomplished throughout the life cycle of a Company. The concept of risk management is to improve the Company's ability to address the increasingly complex internal and external potential business risks. Through risk management, the Company expects to identify potential critical problems for the Company's business and to perform mitigation measures that are considered as most convenient.

A framework for identification of internal and external risks faced by the Company, in particular including strategic/sectoral, financial/liquidity, operational, marketing, sustainability (particularly, ESG related risks), employee related risk, cyber security-information and employee dishonesty risk, credit risk, product related risks, natural calamity risk or any other risk as may be determined by the Committee shall be prepared.

6. STEPS IN RISK MANAGEMENT

1. Risk Identification
2. Risk Assessment
3. Risk Analysis
4. Risk Treatment
5. Risk Mitigation
6. Risk - Control and Monitoring

6.1 RISK IDENTIFICATION

Processes are identified by the Company and their key activities are selected for the purpose of risk assessment. Identification of risks, risk events and their relationship are defined based on the detailed discussion, analysis etc.

6.2 RISK ASSESSMENT

Risk assessment is the process of risk prioritization. Likelihood and Impact of risk events are assessed for the purpose of analyzing the criticality. The potential impact may include:

A. On a periodic basis risk, external and internal risk factors are assessed by responsible managers across the organization. The risks are identified and formally reported through mechanisms such as operation reviews and committee meetings.
B. Internal control is exercised through policies and systems to ensure timely availability of information that facilitate pro-active risk management.

6.3 RISK ANALYSIS

Risk Analysis is to be conducted taking the existing controls into consideration. Risk events assessed as “high” or “very high” criticality may go into risk mitigation planning and implementation; low and medium critical risk to be tracked and monitored on a watch list.

6.4 RISK TREATMENT - MITIGATION

To ensure that the risks are mitigated, Company will strive to evolve system and process of mitigation exercise adopting a holistic approach involving the employees, senior management and a vital role of Risk Management Committee.

6.5 CONTROL AND MONITORING MECHANISM

Risk management uses the output of a risk assessment and implements counter measures to reduce the risks identified to an acceptable level. This policy provides process of assessing and mitigating risks identified within functions and associated processes.

The Committee needs to ensure that the Company has adopted the requisite policies and procedures for ensuring the orderly and efficient conduct of its business, including adherence to the Company’s policies, safeguarding of its assets, prevention and detection of frauds, errors, accuracy and completeness of all the disclosures in line with the requirement of the law. The Committee must also ensure that all the proper and adequate controls are in place to ensure proper check and balance are there.

7. OVERSIGHT AND MANAGEMENT

Board

The Board is responsible for reviewing and ratifying the risk management structure, processes and guidelines which are developed and maintained by risk management committee and senior management. The Committees or Management may also refer particular issues to the Board for final consideration and direction

Risk Management Committee

The day-to-day oversight and management of the Company's risk management program has been conferred upon the Risk Management Committee. The Committee is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes, and provides regular reports to the Board on the effectiveness of the risk management program in identifying and addressing material business risks.

The Terms of Reference of the committee are:

- To formulate a detailed risk management policy which shall include:
  - A framework for identification of internal and external risks specifically faced by the company, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
  - Measures for risk mitigation including systems and processes for internal control of identified risks.
  - Business continuity plan.
- To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
- To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
- To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.
- The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.
- Overseeing key risks, including strategic, financial, operational, IT (including cyber security) and compliance risks;
- Assisting the Board in framing, implementing and monitoring the risk management plan for the Company and reviewing and guiding the Risk Policy;
- Developing risk management policy and risk management system / framework for the Company.

Senior Management

The Company's senior management is responsible for designing and implementing risk management and internal control systems which identify material risks for the Company and aim to provide the Company with warnings of risks before they escalate. Senior management must implement the action plans developed to address material business risks across the Company and individual business units.

Senior management should regularly monitor and evaluate the effectiveness of the action plans and the performance of employees in implementing the action plans, as appropriate. In addition, senior management should promote and monitor the culture of risk management within the Company and compliance with the internal risk control systems and processes by employees.

8. RISK REPORTING

The Company regularly evaluates the effectiveness of its risk management program to ensure that its internal control systems and processes are monitored and updated on an ongoing basis. The division of responsibility between the Board, Risk Management Committee and senior management aims to ensure the specific responsibilities for risk management and clearly are communicated and understood.

The Risk Management Committee of the Board supports the Board of Directors in fulfilling its corporate governance and oversight responsibilities with the monitoring and review of the risk management framework and process of the Company.

The risk management function, under the leadership of the Board of Directors, facilitates the process, proposes the risk management framework and an adequate organization structure and prepares the reporting documentation.

The segments and corporate functions are responsible to operate a risk management system consistent with the Company's risk management process, to develop appropriate risk management guidelines for their respective businesses and providing adequate information. All risk management activities, undertaken are fully part of this process.

9. AMENDMENTS

The Board of Directors on the recommendations of Risk Management Committee can amend this Policy, as and when deemed fit. Any or all provisions of this Policy are subject to revision/ amendment in accordance with the Rules, Regulations, Notifications etc. on the subject as may be issued by relevant statutory authorities, from time to time. In case of any amendment(s), clarification(s), circular(s) etc. issued by the relevant authorities found inconsistent with the provisions laid down under this Policy, then such amendment(s), clarification(s), circular(s) etc. shall prevail upon the provisions hereunder and this Policy shall stand amended accordingly from the effective date as laid down under such amendment(s), clarification(s), circular(s) etc.

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