WINSOME YARNS LIMITED

RISK MANAGEMENT POLICY

1. PREFACE

Every business decision inherits associated risks. No business transaction takes place without taking risk. As a matter of fact, the risk associated with every commercial transaction creates an opportunity for the organization since risk and opportunity are two sides of same coin. The Company is operating in textile segment which itself is vulnerable to certain kind of risks associated with textile industry and its different constituents. In order to mitigate these risks and to efficiently handle the various risks, Company has laid down a Risk Management Policy.

2. MEANING OF RISK

Uncertainty is part of everyday life. 'Risk' is basically linked to uncertainty of the future. The uncertainty associated with the outcome of an event that can lead to loss or profit is known as Risk. Every event has got an impact associated with it - either positive or negative. The negative impact represents risk. Moreover risk is an unplanned event with financial consequences resulting in loss or reduced earnings. In commercial and business transactions, risk generates profit or loss depending upon the way in which it is managed. The risk avoidance is not risk mitigation.

3. DEFINITION OF RISK

Oxford Dictionary defines the term "Risk" as a chance or possibility of danger, loss, injury or other adverse consequences. Although in technical terms Risk has been defined as, "Any event that will impact achievement of the Company's objectives, including financial as well as non financial, for its short term and long term objectives.

4. RISK MANAGEMENT FRAMEWORK

Risk management is a continuous process across the organization designed to identify, assess and frame a response to threats that affect the achievement of its objectives. It enables management to prepare for risks before they devolve to improve the operational effectiveness. Determination of the risk appetite allows management to deploy resources according to the need.

We firmly believe that to ensure effective risk management, there ought to be risk management plans to handle the risks based on the priorities and challenges of the business. The factors involved in identified risks must be considered and the accuracy of assessment is very important. This implies, if proper risk management is implemented as a best practice then massive capital losses can be prevented.

The success of the Risk Management Framework depends on the efforts taken to mitigate/ reduce either the probability or consequence of the risk/ threat. Therefore considering the same, Company's Risk Management Framework includes three key elements:

- Risk Assessment
- Risk Management and Risk Mitigation
- Risk Monitoring

4A. RISK ASSESSMENT

Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed effectively. Risk Assessment consists of a detailed study of potential threats and vulnerability and resultant exposure to various risks & its constituents. To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks exposed to the

Company are identified and plans for managing the same are laid out. Moreover, risk assessment allows an entity to consider how potentially an event might affect the achievement of objectives.

4A1. Risk Identification and Classification of Major Risk(s) exposed to Company.

Risk identification requires complete information of the organization, the economic & market conditions and external environment. Potential events that may affect the achievement of objectives are identified from internal or from external sources. Our Company is exposed to different types of risks that can be classified into various categories based on their nature, impact, source of their origin and core aspects.

I. Credit Risk

Credit risk denotes the volatility of losses on account of credit exposures in two forms: the loss in the value of the credit asset and the loss in the earnings from the credit. The default in repayment can be intentional or due to factors beyond the control of the borrower/Company. In other words, lending to a company with a poor credit rating will probably mean setting a high level of interest on the loan. It also includes the risks in settlement of dues/outstanding by dealers and customers and provisions of bad and doubtful debts. Credit Risk put an significant impact on cash flows of the Company.

II. Foreign Exchange Risk

In foreign exchange, the risk is that a foreign central bank will significantly alter its monetary policy or other foreign exchange regulations so that it significantly affects one's currency trades. Since the Company transact a significant portion of business in USD/Euro and in other foreign currencies therefore any fluctuations in foreign currency may impact margins of Company. The depreciation in exchange rate increased the risk of foreign banks, which had large foreign currency exposures in some of the emerging markets of Asia. The adverse exchange rate movement increased the repayment obligations of the banks' borrowers in terms of domestic currency.

III. Financial and Liquidity Risk

Financial risk is an umbrella term for multiple types of risk associated with financing, including financial transactions that include company loans in risk of default and inflation risk too. It may lead to loss of liquidity, falling assets value etc.. Interest rate fluctuations due to change in Government policies and Banks/financial Institutions Policies put a significant effect on cash inflows and outflows of the Company. The market prices of financial derivatives, forward or future also keeps changing. Liquidity Risk reflects the possibility/position that a party may have insufficient funds to settle an obligation for full value when due, but will have funds to cover settlement obligations on some unspecified date thereafter. In non-bankruptcy situations, the allowable methods to cover short positions are generally driven by local market conventions. As a result, liquidity could be adversely affected by prohibitions on transactions such as Repos, Reverse Repos, Securities Lending and other allied components.

IV. Business Operational Risk

The business operational risk is associated with economic and market conditions, cut throat competitions at local as well as at international level, introduction of new players in textile markets, labour turnover, power, logistics, demand & supply risks, latest technologies, techniques required to upgrade plants, boiler house, machines, equipments, Un-interrupted availability of raw material at competitive prices so as to avoid production loss, maintenance of quality and to harmonize production for completing the orders in time as well. Fluctuations in yarn prices in international market, hence impact to pricing/costing of particular product(s) and its blend(s). New designs, innovative textile products, developing new customers residing in different countries carrying lots of choice, ideas may also constitute operational risk for the Company.

V. Legal and Political Risk

Legal Risk is defined as the risk of loss that arises from an unexpected application of law or regulation or change in any Policy/Rules/Regulations/tariff of Central/State Government or local body. Legal risk also originates from court disputes/litigations due to breach of contractual and legal obligations and consequently fines/ penalties imposed by certain Regulatory Bodies/Authorities. As the Company is governed by various laws and the Company has to do its business within four walls of law, the Company is exposed to legal risk with the enactment of any new Law/new Taxation Structure and every levy in whatever form or in whatever nature may put significant effect on earnings of the Company. Further more, the Political Stability i.e. Stable Government, if prevails in the Country, brings more consistency in the business and facilitate sound decision making in proximity of positive response/initiatives/subsidies/export incentives etc. from Government in societal interest. Otherwise unsteady Political Government leads to frequent change in industrial policies/taxation structures/restrictions etc. which may adversely affect the investment and growth of an organization.

VI. Geographic and Environmental Risk

This is a risk to an investment in a specific disturbed geographic area. The disturbance may be at local level or may be at national/international level. Geographic Risk may also occur when the company send an consignment through export to a place/country which has suffered natural disaster like declared war, earthquake, fire, flood or force majure. The safety of environment is also important for us because of its ecological, economic or social significance to an ecosystem. If environment get impact/suffer more due to highly polluting nature or due to violation of any environmental law/norms by the industry/business then it may get adverse remarks from the Regulator/Statutory Authority or may have to face penal provisions as well as implications. Therefore the Company is also exposed to environmental risk.

4B. Risk Management and Risk Mitigation

After the risks have been identified, risk management attempts to lessen their effect. The basic objective of risk management is to minimize the negative effects of risks that can affect the financial results and capital of an Company. Because when it comes to do 'business', obviously what comes first is 'risk' and the business can be success, only if there is a strong Risk Management Process in place. It means that an effective risk management system covers all embedded risk areas.

Moreover, the Risk Mitigation is the selection and implementation of controls (taking actions) to reduce the risk to a level acceptable to management. It is an exercise aiming to reduce the loss or damage arising out of various risk exposures.

4B1. Risk Mitigation measures regarding Credit Risk

To mitigate the Credit Risk which may exposed to Company, the Company has separate finance department with functional head who regularly reviews the Credit Risk and allied factors. The said department constantly makes efforts to upgrade the credit rating and credit worthiness of the Company. To facilitate the same, meeting with different lenders are organized at regular intervals to get their valuable feedback and to rectify the deficiencies, if found. The Systems are put in place for assessment of credit worthiness of the dealers and customers. Proper provisions are made for bad and doubtful debts. Credits are given to the customer only after taking their proper feedback reports and analyzing of their past track record, financial soundness from concerned Marketing Department. No credit are given to defaulter customer irrespective of quantum and size of order. Systems are in place for credit check to our regular/standard customers to whom we provide credit in normal routine and to check debtors list before shipping/delivering any order.

4B2. Risk Mitigation measures regarding Foreign Exchange Risk

To mitigate the Foreign Exchange Risk which may exposed to Company, the Company is less dependent on import of different machines, equipments which are required to it for its business. Since the substantial portion of turnover of Company comprises of export turnover, accordingly Company receives payment in different currency from its customers which may sometime involves substantial risk on account of adverse currency movements in global foreign exchange markets. Therefore Company generally trade on advance payments as far as possible. Further proper follow ups are made with overseas customers so as to receive the payments in time bound schedule in order to have minimal foreign currency fluctuation risk.

Besides this, we manage risk on account of foreign currency fluctuations through limited hedging of specific transactions with our Bankers. Without venturing into the speculative aspects of dealing in currency derivatives, we aim to cover foreseeable fluctuations with limited hedge cover so that moderate arbitrage efficiency is achieved against the existing borrowing rates of interest. The Finance Department of the Company time to time specifies transaction limits, execute, monitor and control such transactions. System are put in place to explore more alternatives to reduce this risk.

4B3. Risk Mitigation measures regarding Financial and Liquidity Risk

To mitigate the Financial and Liquidity Risk which may exposed to Company, Proper financial planning is put in place with detailed Annual Business Plans and Annual Budgets at appropriate levels within the organization. These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances. Cost Centers are prepared with in the organization and internal controls prevails in the organization to minimize the variances. Cash flow statements are prepared on daily basis to analyze daily fund position along with proper sales analysis. To protect undue loss of interest and to utilize cash in an effective manner are some of the focused areas. Efforts are made to adhere the time bound schedule for Statutory payments and other necessary payments irrespective of their nature and quantum. The Company has also well defined internal control system conterminous to its nature of activities & business operations so as to safeguard its assets against loss from unauthorized use or disposition.

It is the endeavor of the management to put control on wasteful expenditures and to spent with in the parameters/limits laid down. Company constantly reviews its working capital limits and other term loans at regular frequent intervals to keep the financial position intact. Efforts are made to arrange finance at lower rate of interest with multiple banks so as to maintain proper liquidity and to bear any uncertain expenditure. Cash management services are also availed from Banks to avoid any loss of interest on collections. Exposures to Foreign Exchange transactions are supported by LC's and Bank guarantees and proper steps are taken to protect undue fluctuations in rates etc.

4B4. Risk Mitigation measures regarding Business Operational Risk

To mitigate the Business Operational Risk, proper policies & procedures are followed in relation to maintenance of inventories of raw materials, consumables, key spares and tools to ensure their availability for planned production programmes. In the main season, quality cotton is procured at best competitive rates from different parts of the country. Proper inventory control systems have been put in place. To espouse, Company has invested appropriate amount to upgrade its plants, machines, dye house and other equipments etc. to avoid any hindrance in the production and to upgrade its production line proficiently with latest technology and techniques.

Demand and supply are external factors on which Company has no control, but Company plans its production and sales efficaciously from the experience gained in the past and from an on-going study and appraisal of the market dynamics, movement by competition, economic policies and growth patterns of different segments of users of company's textile products.

Regular trainings programmes and workshops either in house or outside are organized/provided to technical staff and to other senior managers so as to make them aware about latest techniques and technologies. Company also explore new areas in which it may save power and energy. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to manufacturing procedures etc. It fosters their confidence to cope with challenges. It is believed that a satisfied and committed employee will give his best and create an atmosphere that cannot be conducive to risk exposure. Labour problems, if any, are resolved by negotiations and mutual discussions amicably. It is a part of HR policy of Company to retain talented, honest and competent person in the workforce.

The Company takes specific steps to reduce the gap between demand and supply by expanding its customer base, improvement in its product profile, delivery mechanisms and to unify its constituents. The possibilities to optimize the operations, by having a combination of transportation through road/ rail/sea/air are explored. Company has tied up with different transports companies and also with reputed shipping lines to handle logistic part, domestic as well as abroad effectively based on our priorities and time aspects at adequate prices. Our sales team constantly follow up with the customers to get their valuable feedback and to incorporate them in the systems so as to deliver good product as per prevailing market conditions at best rates. It helps us to motivate and to regain faith in our esteemed customers. Although it is difficult to control fluctuations in yarn prices in international market, but by adopting better techniques in production and by making optimum use of all available resources potentially, some how we are able to mitigate and to control its negative impact.

4B5. Risk Mitigation measures regarding Legal and Political Risk

To mitigate the Legal risk, Company has an experienced team of professionals, which regularly reviews and comply with the requirements of various applicable laws and their regulations. Management places and encourages its employees to give opinion and discuss impact of all laws and regulations to ensure company's total compliance. Advisories and suggestions from professional agencies, local associations, Senior Advocates/Legal Counsels and industry bodies, Chambers of commerce etc. are taken as and when required and acted upon where relevant.

To mitigate the Political Risk, the senior employees of Company keep an intact eye with different government policies/rules/regulations, changes therein, relating to industrial, labour, investment, foreign exchange and taxation structures etc.. The officials of Company proactively involves and represents the Company in different seminars/workshops/meetings/forums etc. organized by the Govt. Bodies/Chambers and Industrial Sector/Professional Institutes so as to make them aware about the difficulties so caused or about any potential threat to the industry about any proposed action of any Statutory enactment or any regulations. We also keep reviewing existing and future investment strategies on a continuous basis considering the impact of government policies.

4B6. Risk Mitigation measures regarding Geographic and Environmental Risk

To mitigate the Geographic Risk, Company take utmost care to invest or to provide material to any customer/company located in specific disturbed geographical area. In that cases, Company generally deals either on letter of credit (LC) or on advance payment so as to avoid any blockage of its capital. Apart from it, proper Insurance covers are taken to avoid any mis-happening. To mitigate the environmental risk, the Company endeavors to protect the environment in all its activities, as a social responsibility. For control of water pollution, the Company has setup a Common Effluent Treatment Plant (CETP) for collecting, conveying, treating, and disposing of the effluents of the Plant/factory. Besides this, necessary equipments have already been installed to prevent air pollution and other kinds of pollution. Extensive plantation of trees around manufacturing plants is undertaken for green belt development. Company also obtained the necessary environmental clearances, if so required, in due course and respect the local law.

Besides above, the Company strictly follows the policy and commitment to create green belts as per the legal/Statutory requirements. Considerable focus is given to maintain the quality at each level and to become Eco-friendly. The Company continues with the certification of IS/ISO 9001:2008 Quality Management Systems Certification issued by Bureau of Indian Standards.

5. APPLICABILITY

This policy is applicable in the Company with effect from 01st April 2014.

6. REVIEW AND AMENDMENT

The Risk Management Committee of the Board of Directors of the Company periodically reviews the existence and functioning of Risk Management Policy. The Board of Directors after considering the recommendations of Risk Management Committee are empowered to amend this policy in whole or in part, at any time consistent with requirements of applicable laws, rules and regulations.

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