RISK MANAGEMENT & MITIGATION

The Company has a comprehensive Risk Management and Mitigation framework which is reviewed from time to time to ensure its effectiveness in line with the changing business dynamics. The framework identifies all possible risks that the Company might be exposed to, including their categorisation based on their severity, for regular monitoring and reporting. The policy identifies risk ownership, accountability and mitigation procedures. It is the endeavour of the Company to strengthen the control environment on a dynamic basis with a view to lower the overall risk profile.

The Risk Management Policy lays down guiding principles, policies, a risk organisation structure and MIS, incorporating the requirements of Corporate Governance as well as some of the industry best practices in order to manage risks. Pursuant to the risk management policy, the Company presents an enterprise-wide approach to ensure that key aspects of risks that have an enterprise-wide impact are considered and contained in its conduct of business. This policy document also serves as a guideline for respective components of risks which have a common resonance across the Company.

The Company's business relates to manufacture and sale of steam turbines which falls under the capital goods industry segment and is closely linked with the country's economic activities, domestic and global, as well as the sectors wherein the Company's products are used. Even though several factors relating to the industry are not within the control of the Company, it strives to mitigate the externalities in the best possible manner by ensuring diversified streams of revenues and avoiding over dependence on any sector/s or geographies.

Some of the major risks being faced by the Company are described below:

1. **Risk of slowdown in economy & Over dependence on any market**

   A slowdown in economy directly impacts the demand of capital goods, including the products of the Company. Further, over dependence on any market segment/s may adversely affect the performance of the Company if the concerned segment gets sluggish due to internal factors.

   The domestic market, traditionally the major market of the Company, has substantially declined from its peak levels and has remained stagnant for the past several years, as a result of which the off-take of the Company's products in the domestic market has suffered. Although there has been occasional recovery in certain sectors, such as, Sugar, Cement, steel etc., these recoveries have not been consistent and sustainable. The Company was cognisant of the risk of over dependence on the domestic market and it thus actively started exploring and focusing on marketing its products in the global market and the efforts of the Company yielded positive results. The timely proactive steps taken by the Company have been helpful in countering contraction of demand in the domestic market. The Company is in the process of further extending its footprints in the global market to contain the risk of slowdown and to avoid over exposure to a market segment. The Company has also set up international offices to ensure proximity to customers so that it acquires in-depth knowledge of market trends and is able to capture all opportunities.

2. **Margin related risks**

   The Company has been able to consistently maintain its margin due to several factors, including, cost control, effective supply chain, value engineering and most importantly, due to substantial proportion of high margin aftermarket services. The aftermarket services are complimentary to product sale as these provide support to the customers to keep the products trouble free and to resolve break-downs in the most efficient manner. Without such service support, the Company may not be able to win the confidence and secure orders from customers. However, the Company also focuses on increasing such services as a tool to maintain and enhance the overall margin by building an optimal mix of product and aftermarket services. As in the domestic market, the Company is replicating its service model, offering its service for preventative maintenance of its products and strengthening its service capabilities to attend to urgent situations in a timely manner internationally. Further, in view of the perceived vast potential, the Company is also looking at refurbishment of turbines, including of other makes, and substantial export content of the aftermarket business. The foreign subsidiaries and offices set up by the Company will help in achieving these objectives apart from securing more aftermarket service orders. In due course, the Company may also own, directly or indirectly through joint ventures, service workshops in various regions.

3. **Technology and competition related risks**

   The Company is in competition with large global entities in the domestic and international market and in order to compete with them effectively, it has to offer a value proposition which appeals to customer and offers product efficiency, critical product features and overall life cycle costs comparable with the competitors. It requires technology to be benchmarked and improved constantly in line with competitors. The Company vigilantly studies, analyses and forecasts market trends and customer preferences and accordingly develops its R&D programmes.

The Company has a well-established R&D department which undertakes new product development and improvements within the shortest possible time and at optimal costs. The Company has also tied up with institutes of repute for development of technology & products. The Company has well structured systems to validate its technology prior to commercial use. The Company imparts technical training at its in-house Learning Centre for all the levels of engineers to expose them to the latest technology.

4. Risks of internationalisation

The Company is increasingly focusing on international markets for its products & services. There are risks of claims from customers if the contractual performance parameters are not met and there could be other implications in the event of non-compliance of laws of the concerned country.

The Company has been in steam turbine business for long and is aware of the technicalities involved. Proper due diligence is made prior to accepting any order. Further, the Company has strict quality control procedures which ensure that all the products supplied to the customers meet the necessary contractual specifications and parameters. It is also ensured that the contracts with customers clearly specify the obligations of the Company. The Company also takes appropriate insurance policies to cover all such risks. Further, a comprehensive check list is prepared for each concerned country/region to ensure full compliance.

5. Risk of underutilisation of expanded manufacturing capacity

The Company has set up a new state-of-the-art manufacturing facility, thereby increasing the capacity. In the event the orders are not secured commensurate with the expanded capacity, the under utilisation of capacity may lead to additional costs which may impact the margins and ROI.

The Company plans to set up the new facility in a phased manner so as to avoid idle overcapacity. The expanded capacity will also provide necessary infrastructural support to the manufacture and assembly of higher range of turbines, which were not presently available as per the desired levels. Additionally, it will also have better testing facilities and ensure productivity gains to the Company. Upon return of normalcy in the domestic market, the new facilities will help to meet additional demand.