

## RISK MANAGEMENT POLICY

The Policy is attempting to identify and then manage threats that could severely impact the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the Corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009, it has therefore become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimise their adverse impact on the organisation.

### **Risk Strategy:**

**Hathway Bhawani Cabletel & Datacom Limited (Hathway)** recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. The Company believes that the Risk cannot be eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into risky businesses;
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

Hathway is engaged in the business of providing internet and cable services as Multi System Operator (MSO).

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative.

The common risks inter alia are:

- Regulations,
- competition,
- Business risk,
- Technology obsolescence,
- Investments,
- Retention of talent and expansion of facilities.

Business risk, inter-alia, further includes financial risk, political risk, fidelity risk, legal risk. For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the company and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

### **Risk Management Framework**

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into

#### **Strategic:**

- Organizational Growth.
- Comprehensive range of products.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating new geographic markets.
- Continuing to enhance our industry expertise.
- Enhance our capabilities through technology alliances and acquisitions.

#### **Operations:**

- Consistent Revenue growth.
- Consistent profitability.
- High quality production.
- Further develop Culture of Innovation.
- Attract and retain quality technical associates and augmenting their training.

#### **Reporting:**

- Maintain high standards of Corporate Governance and public disclosure.

#### **Compliance:**

- Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary. Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures.

Hathway adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Management Committee with functional heads and the Joint Managing Director as members. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organisation

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We consider activities at all levels of the organization, viz., Enterprise level; Division level; Business Unit level; Subsidiary and Joint Venture level are considered in the risk management framework.

All these components are interrelated and drive the enterprise in mitigating the Risk Management process with focus on three key elements, viz.

- (1) Risk Assessment
- (2) Risk Management
- (3) Risk Monitoring.

### **Risk Assessment**

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed.

Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

### **Risk Management and Risk Monitoring**

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

#### **1. Economic Environment and Market conditions**

Our customers concentrated in households and commercial enterprises. Economic slowdowns or factors that may affect the economic health of our customers may increase risk to our revenue growth.

Strategically, we seek to continuously expand the customer base to maximise the potential sales volumes and at the same time securing additional volumes from existing customers on the basis of our record of satisfactory performance in our earlier dealings. The efforts to enhance quality of products and upgrading their performance parameters are aimed at deriving optimum value from the existing customer base and targeting a larger customer profile. Historically, the strength of our relationships has resulted in significant recurring revenue from existing customers.

To counter pricing pressures caused by strong competition, the Company has been increasing operational efficiency and continued to take initiatives to move up the quality control scale besides cost reduction and cost control initiatives.

#### **2. Fluctuations in Foreign Exchange**

While our functional currency is the Indian rupee, we transact a significant portion of our business in USD/Euro and other currencies and accordingly face foreign currency exposure from our purchases from overseas suppliers in U.S. dollars and

other currencies and are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets.

We manage risk on account of foreign currency fluctuations through limited hedging of specific transactions with our Bankers. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to achieve greater predictability and stability. 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. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; identification of the personnel involved in executing, monitoring and controlling such transactions.

### **3. Political Environment**

Any adverse change in the political environment of the country, would have an impact in growth strategies of the company. As a policy, however, considering our basic political philosophy, we will review existing and future investment strategies on a continuous basis.

### **4. Competition**

The markets for Cable TV & ISP are rapidly evolving and highly competitive and we expect that competition will continue to intensify due to new entrants in DTH, expansion of existing capacities and consolidation of operations across the sector. We believe that we are strongly positioned in our designated market commanding a premium for our services.

### **5. Inflation and Cost Structure**

The Company being engaged in the service industry, hence there are specific cost of revenues except Set Top Boxes (STBs) and manpower. The cost of revenues has a very high degree of inflationary certainty. To de-risk, the Company has established specific policies for procurement of STBs.

At organizational level, cost optimisation and cost reduction initiatives are implemented and are closely monitored. The Company controls costs through budgetary mechanism and its review against actual performance with the key objective of aligning them to the financial model. The focus on these initiatives has inculcated across the organization the importance of cost reduction and control.

### **6. Financial Reporting Risks**

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, Securities and Exchange Board of India (SEBI) rules, and Indian stock market listing regulations are creating uncertainty for companies. These new or changed laws, regulations and standards may lack

specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

We are committed to maintaining high standards of corporate governance and public disclosure and our efforts to comply with evolving laws, regulations and standards in this regard would further help us address these issues.

Our preparation of financial statements in conformity with Indian GAAP and in accordance with the Accounting Standards issued by ICAI, requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances including consultation with experts in the field, scrutiny of published data for the particular sector or sphere, comparative study of other available corporate data, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These may carry inherent reporting risks. We believe that the accounting policies related to revenue recognition and Accounting for Income taxes are significant.

#### **7. Risk of Corporate accounting fraud:**

Accounting fraud or corporate accounting fraud are business scandals arising out of Misusing or misdirecting of funds, overstating revenues, understating expenses etc. The Company mitigates this risk by

- Understanding the applicable laws and regulations
- Conducting risk assessments,
- Enforcing and monitoring code of conduct for key executives
- Instituting Whistleblower mechanisms
- Deploying a strategy and process for implementing the new controls
- Adhering to internal control practices that prevent collusion and concentration of authority
- Employing mechanisms for multiple authorisation of key transactions with crosschecks
- Scrutinising of management information data to pinpoint dissimilarity of comparative figures and ratios
- Creating a favourable atmosphere for internal auditors in reporting and highlighting any instances of even minor non-adherence to procedures and manuals and a host of other steps throughout the organisation and assign responsibility for leaving the overall effort to a senior individual like Chief Financial Officer.

#### **8. Legal Risk**

Legal risk is the risk in which the Company is exposed to legal action

As the Company is governed by various laws and the Company has to do its business

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within four walls of law, where the Company is exposed to legal risk exposure. We have an experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence to all contractual commitments. Management places and encourages its employees to place full reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant.

## **10. Human Resource Management**

***"The vision of the Company is to achieve Organisational excellence through innovation"***

Human Resources Development (HRD) Department will add value to all its Units and associate companies by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence.

Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation.

### **Risks specific to the Company and the mitigation measures adopted**

1) **Business Operations Risks:** These risks relate broadly to the company's organisation and management, such as planning, monitoring and reporting systems in the day to day management process namely:

- Organisation and management risks,
- Business interruption risks,
- Profitability

#### **Risk mitigation measures:**

- The Company functions under a well defined organization structure.
- Flow of information is well defined to avoid any conflict or communication gap between two or more Departments.
- Second level positions are created in each Department to continue the work without any interruption in case of non-availability of functional heads.
- Proper policies are followed in relation to maintenance of inventories of STBs, consumables and key inputs to ensure their availability for planned distribution programmes.

#### **2) Liquidity Risks:**

- Financial solvency and liquidity risks
- Borrowing limits
- Cash management risks

#### **Risk Mitigation Measures:**

- Proper financial planning is put in place with detailed Annual Business Plans discussed at appropriate levels within the organisation.
- Annual and quarterly budgets are prepared and put up to management for

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detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.

- These budgets with Variance Analysis are prepared to have better financial planning and study of factors giving rise to variances.
- Daily and monthly cash flows are prepared, followed and monitored at senior levels to prevent undue loss of interest and utilise cash in an effective manner.
- Cash management services are availed from Bank to avoid any loss of interest on collections. Exposures to Foreign Exchange transactions are supported by LCs and Bank guarantees and steps to protect undue fluctuations in rates etc.

### **3) Credit Risks:**

- Risks in settlement of dues by dealers/customers
- Provision for bad and doubtful debts

#### **Risk Mitigation Measures:**

- Provision for bad and doubtful debts made to arrive at correct financial position of the Company.
- Appropriate recovery management and follow up.

### **4) System Risks:**

- System capability
- System reliability
- Data integrity risks
- Coordinating and interfacing risks

#### **Risk Mitigation Measures:**

- EDP department maintains repairs and upgrades the systems on a continuous basis with personnel who are trained in software and hardware.
- Password protection is provided at different levels to ensure data integrity.
- Licensed software is being used in the systems.
- The Company ensures "Data Security", by having access control/restrictions.

### **5) Legal Risks:**

#### **These risks relate to the following:**

- Contract Risks
- Contractual Liability
- Frauds
- Judicial Risks
- Insurance Risks

#### **Risk Mitigation Measures:**

Following are the Risk mitigation measures adopted by the Company to mitigate the risks relating to Legal aspects:

- A study of contracts with focus on contractual liabilities, deductions, penalties and interest conditions is undertaken on a regular basis.
- The Legal department vets all legal and contractual documents with legal advice from Legal retainers for different branches of legislation.
- Contracts are finalized as per the advice from legal professionals and Advocates.
- Insurance policies are audited to avoid any later disputes.
- Internal control systems for proper control on the operations of the

Company and to detect any frauds.

**Disclaimer Clause**

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.