Texmaco Infrastructure & Holdings Limited

TexInfra -ERM

Risk Policy Document

Contents

1. Introduction

1.1 Objective of Enterprise Risk Management

Texmaco Infrastructre & Holdings Ltd. (TEXMACO) is a premier multi-disciplined, multi-unit Real Estate and Infrastructure company that strives to create and enhance values for its Customers, Investors, Employees, Suppliers, and society. At the same time, the company is committed to complying with all applicable laws and regulations of the countries where it operates. In this journey, Texmaco wants to continuously be aware of all the risks and uncertainties, protect the business from their impact, and leverage opportunities to create more value. The ERM framework document is aimed at guiding all the teams and stakeholders.

1.2 Texmaco Enterprise Risk Management – TexInfra ERM

Texmaco Enterprise Risk Management initiative is branded as TexInfra ERM and is based primarily on COSO - 2017, ISO 31000, SEBI LODR 2015 requirements, Companies Act, 2013-and FICCI Risk Code 2022.

1.3 Enterprise Risk Management

Enterprise risk management (ERM) is not a function or department. It is the culture, capabilities, and practices organisations integrate with strategy-setting and apply when they carry out that strategy to manage risk in creating, preserving, and realising value. Enterprise Risk Management must be integrated with the organisation's strategy and performance.

1.3.1 Benefits of ERM

Some of the benefits of having an effective ERM system are enumerated below.

- Increasing the range of opportunities:

  By considering all possibilities—both positive and negative aspects of risk— management can identify new opportunities and unique challenges associated with current opportunities.

- Identifying and managing risk entity-wide:

  Every entity faces a myriad of risks that can affect many parts of the organisation. Sometimes, a risk can originate in one part of the entity but impacts a different role. Consequently, management identifies and manages these entity-wide risks to sustain and improve performance.

- Increasing positive outcomes and advantages while reducing negative surprises:

  Enterprise risk management allows entities to improve their ability to identify risks and establish appropriate responses, reducing surprises and related costs or losses while profiting from advantageous developments.

- Reducing performance variability:

  For some, the challenge is less with surprises and losses and more with variability in performance. Performing ahead of schedule or beyond expectations may cause as much concern as performing short of scheduling and expectations. Enterprise risk management allows organisations to anticipate the risks that would affect performance and enable them to implement the actions needed to minimise disruption and maximise opportunity.

- Improving resource deployment:

  Every risk could be considered a request for resources. Obtaining robust risk information allows management to assess overall resource needs, prioritise resource deployment and enhance resource allocation in the face of finite resources.

- Enhancing enterprise resilience:

An entity's medium and long-term viability depends on its ability to anticipate and respond to change, not only to survive but also to evolve and thrive. This is, in part, enabled by effective enterprise risk management.

1.3.2 Role of Texmaco Management in ERM

Management holds overall responsibility for managing all risks to the organisation. At the same time, management needs to:

- Gain an understanding of how risk may impact the choice of strategy.
- Engage with the board and stakeholders and use enterprise risk management to gain competitive advantage.
- Deploy enterprise risk management capabilities as part of selecting and refining a strategy.

1.3.3 Role of the Texmaco Board in ERM

The rules and regulations framed by the Indian Statutory authorities spell out the role of the Board in providing oversight of ERM activities. In addition, the Board's risk oversight role needs to include reviewing and ensuring:

- Organisational strategy is formulated giving due consideration to its risk appetite.
- Alignment of strategy and business objectives of the organisation with the portfolio view of risk.
- Enhancement of enterprise resilience by strengthening its ability to anticipate and respond to risks.

1.3.4 TexInfra ERM Framework

The Texmaco ERM framework is a set of policies, processes, guidelines, checklists and templates the organisation uses to define, create, implement and review risk management culture, capabilities and practices.

1.4 Organisation ERM Policy Statement

Texmaco believes that managing risks is essential for sustaining business and achieving growth. To this end, the Board enumerates the following policy statements.

The Board shall:

1. Create and maintain a process infrastructure for identifying and evaluating risks from internal operations and external factors that might influence business.
2. Take actions to remove or minimise the impact of the risks in a timely and cost-effective manner.
3. Provide adequate and appropriate financial and human resources for risk assessment and management functions.
4. Take risk information as one of the considerations for decision-making and strategy formulations.
5. Encourage key decision makers and operational leaders to take calculated risks per the company's risk appetite, thereby enhancing business value.
6. Foster a risk-aware culture and encourage reporting of risks across all levels of the organisation.
7. Comply with all applicable laws and regulatory requirements of the countries where the company operates.

1.5 Coverage of TexInfra ERM Framework

Enterprise Risk Management (ERM) is an approach that strategically examines risk management from the vantage point of the entire company or organisation. It involves a top-level strategy that seeks to recognise, evaluate, and prepare itself for possible setbacks, threats, risks, and other possibilities of negative impact that could disrupt the operations and goals of an organisation or result in losses.

This Enterprise Risk Management (ERM) framework will include:

- ERM organisation structure
- Risk identification process
- Structure of the Risk Register
- Risk Response Strategy

- Risk Reporting structure
- Risk Review Mechanism
- Risk communication plan

1.6 Applicability

Policies and practices described in this document apply across all locations of the Company including its operations and all support functions.

1.7 Audience

The content of this document is meant to be read and used by:

- Board
- Audit Committee
- Risk Management Committee
- ERM Committee
- CRO and ERM Team
- Head of Departments/Functions
- Risk Champions
- Operational Management Team
- Internal Auditors
- External Auditors

1.8 Roles & Responsibilities

Below is the list of important stakeholders in this ERM framework, along with their roles and Responsibilities in context to ERM and reporting hierarchy.

ROLE	RESPONSIBILITIES	REPORTING TO
Risk Champions (Department-wise)	Act as risk focal point within their respective departments, train the rest of the executives on the policies and practices of risk management as described in this set of documents, identify and assess risks, and assist in implementing risk mitigation measures.	Head of the Department
Head of Departments	Set strategic direction, align risk management with business objectives, ensure risks are managed within their areas, and support risk culture.	CEO/Head of Division/CRO
ERM Team	Develop and implement the enterprise-level risk management framework to create policies, procedures, templates, communication, and reporting mechanisms.	CEO/Head of Division/CRO
Chief Executive Officer (CEO)/Head of Division/CRO	Oversee risk management activities for all departments and take an integrated view; work closely with the ERM team to assess external and internal risks and help formulate an enterprise-level view of risks and opportunities. Oversee the ERM program, coordinate the ERM team, report to the Risk Management Committee, and provide insights for Board decisions.	Risk Management Committee
Internal Audit Team	Independently assess the effectiveness of risk management practices, evaluate compliance, and recommend improvements.	Audit committee
Risk Management Committee	Supervise the ERM program, review risk management activities, ensure alignment with business goals, and escalate significant risk matters to the Board.	Board
Board	Provide oversight and governance, approve risk management strategy, and make informed decisions based on ERM insights.	Government/Regulatory Body/Public etc.

1.9 Definition of Terms

1. Corporate Governance: The framework of rules, practices, and processes that guide how an organisation is directed, controlled, and managed. Corporate governance ensures accountability, transparency, and ethical behaviour in decision-making.

2. External Risk Consultants: Independent professionals or consulting firms hired by an organisation to provide specialised expertise in identifying, assessing, and managing risks. They contribute an external perspective and insights to enhance risk management strategies.

3. Regulatory Mandates: Legal requirements imposed by government bodies or regulatory authorities that organisations must adhere to. Regulatory mandates often include standards, guidelines, and reporting obligations related to risk management and corporate governance.

4. Risk: the uncertainty that a future event, behaviour, or decision may adversely (or favourably) impact achieving an organisation's objectives. Therefore, it also signifies the opportunity to create and preserve organisational value.
   - Risk may be seen as a hazard where the result of the risk materialising will adversely impact the organisation.
   - Risk may be seen as an uncertainty where the result of the risk materialising will adversely impact the anticipated outcome.
   - Risk may be seen as an opportunity where the result of the risk materialising will lead to the loss of an anticipated opportunity.

5. Risk Appetite: refers to the types and quantum of risk an organisation is willing to take to deal with a particular decision/event in pursuit of its objectives.

6. Velocity of Risk: The time difference between a risk occurring and manifesting its impact.

7. Risk Awareness Culture: A shared mindset and attitude within an organisation that promotes vigilance, understanding, and proactive identification of risks. A risk awareness culture encourages employees to consider risks in their decisions and actions.

8. Regulatory Compliance: The adherence to laws, regulations, and industry standards relevant to an organisation's operations. Regulatory compliance ensures that an organisation operates within legal boundaries and meets industry requirements.

9. Risk Disclosure: Communicating information about risks and risk management practices to stakeholders, including investors, regulators, and the public. Risk disclosure promotes transparency and helps stakeholders make informed decisions.

10. Stakeholder: refers to anyone impacted by the organisation's risk management practices which can affect the organisation. These include the following:
    - Stakeholders who are directly involved in the organisation's business operations – employees, Vendors, customers.
    - Stakeholders who are interested in the organisation's business – lenders, shareholders, financial Institutions, regulators.
    - Stakeholders influencing the organisation's business–government, community, rating agencies, industry associations, competitors, and minority groups such as proxy firms.

11. Strategic Imperatives: Essential actions or objectives aligned with an organization's long-term goals and objectives. Strategic imperatives guide decision-making and resource allocation to achieve desired outcomes.

2. TexInfra ERM Organization Structure

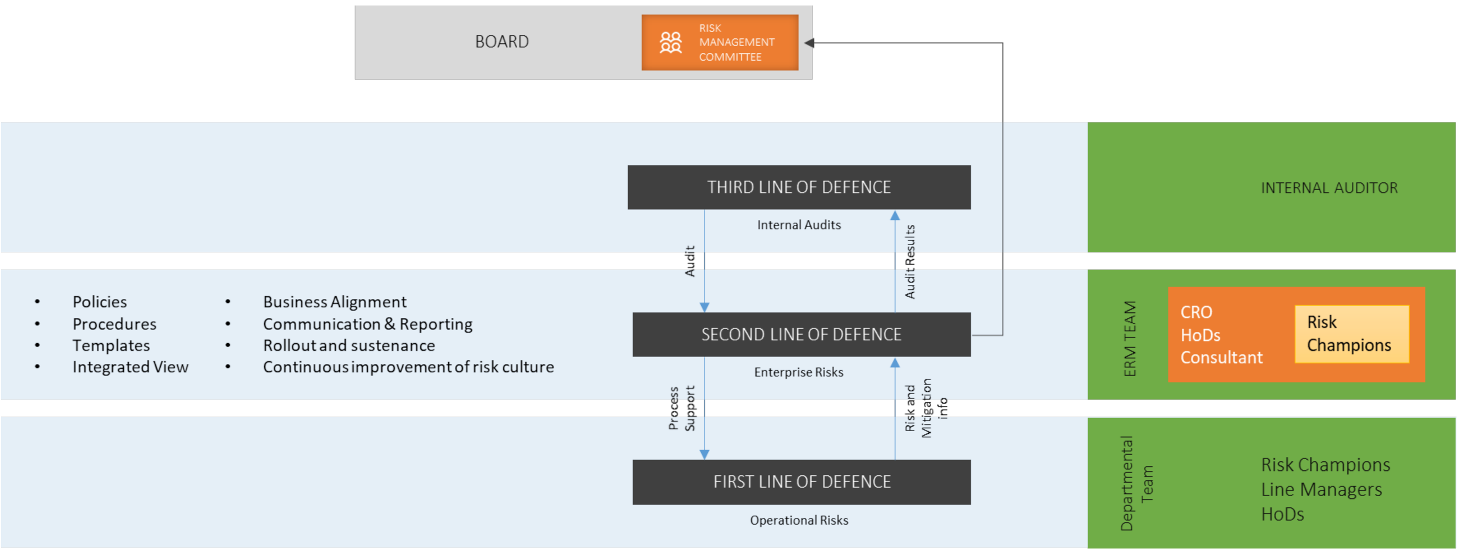
The Enterprise Risk Management (ERM) organisation structure has been designed to ensure a comprehensive and integrated approach to risk management. Recognising the importance of clear roles and responsibilities, the ERM organisation structure is developed in line with the Three Lines of Defence (3LOD) model. This well-established framework delineates distinct functions to effectively identify, assess, mitigate, and monitor organisational risks.

The Three Lines of Defence at Texmaco:

- **First Line of Defence:** The first line of defence within Texmaco's Enterprise Risk Management (ERM) structure comprises a well-structured and formalised group that includes Operators, Line Managers, and Heads of Departments (HoDs). These individuals are at the forefront of Texmaco's daily operations and are directly responsible for managing risks inherent to their respective areas. Their collective effort forms the initial line of protection, where proactive risk identification, assessment, and mitigation occur at the ground level. This line of defence needs to be formalised and strengthened, fostering a culture of accountability and risk awareness throughout Texmaco's operations.
- **Second Line of Defence:** Texmaco's second line of defence consists of the ERM team involving HoDs, the Chief Risk Officer (CRO), and External Risk Consultants. This cohesive team shall craft a comprehensive risk management framework, developing policies, procedures, and templates. The ERM team shall also ensure seamless communication and reporting of risks across the organisation. Guided by the Chief Risk Officer (CRO), this team shall foster an integrated view, align with business objectives, and drive a proactive organisational risk culture.
- **Third Line of Defence:** The third line of defence within Texmaco's ERM structure is the Internal Auditor. These professionals operate independently from the operational and risk management teams, offering an objective and unbiased perspective. Their role involves conducting thorough assessments of the effectiveness of the risk management framework, evaluating the implementation of policies and procedures, and ensuring compliance with requirements.

2.1 ERM Organisation Diagram

The following diagram depicts the various roles within the ERM Organisation as per 3LODs, their responsibilities and reporting structure.



3. Risk Identification Process

- Identify, assess and assist in the management of risk

  The objective of this task would be to:

  - Assess the effectiveness of risk management practices and controls within the organization.
  - This would involve identifying risk, evaluating their potential impact and likelihood, assessing existing control measures, and proposing improvements or corrective actions where necessary.

- Review risks for the organization

  The internal review will be carried out to:

  - Comprehensively evaluate the risk landscape that affects the organization.
  - Ensuring that potential risks are identified, assessed and managed in accordance with Texmaco's risk appetite and strategic objectives. This process establishes a foundation for informed decision making, accountability, and optimized resource allocation.

4. Structure of Risk Register

A risk database is a structured and organized repository of information about various risks an organization may face. It is a central hub where an organization collects, stores, and manages data and insights about different types of threats, their potential impacts, likelihood of occurrence, and mitigation strategies.

- Risk Register: A Risk Register is a vital component of a risk management database. It is structured document that captures and organizes information about identified risks, their attributes, assessment details, mitigation strategies, and ongoing monitoring efforts. The Risk Register will systematically manage and track threats throughout their lifecycle.

- Enterprise-wide Risk Register: The filtered risks shall be consolidated into the enterprise-wide Risk Register overseen by the Board or Risk Management Committee. The central repository will capture a panoramic view of the organization's risk landscape, ensuring comprehensive coverage. The Bard or Risk Management Committee, drawing upon collective expertise, will evaluate and determine the most suitable risk response strategies.

5. Risk Response

5.1 Guidelines for appropriate responses to risk

There exist four essential risk response strategies: Mitigation, Avoidance, Transfer and Accept. Every Risk shall have a response strategy associated with it. The following guidelines will be followed to choose the optimal response to an identified risk by the team identifying and managing the risk.

- For Departmental Risks, the Departmental Team will identify the optimal response.
- For Enterprise Risks, the ERM Team will identify the optimal response.

Mitigating a Risk

Mitigating risk involves taking proactive measures to reduce the likelihood or impact of a potential threat. Texmaco identifies and implements control measures, safeguards, and contingency plans to minimise the adverse effects of risks while maximising opportunities. This strategy addresses risks head-on and enhances the organisation's ability to navigate challenges effectively.

Avoiding a Risk

Avoiding a risk means making conscious decisions to completely steer clear of situations or activities that could lead to potential harm or adverse outcomes. Texmaco may choose to avoid specific projects, ventures, or actions if they carry excessive risks deemed incompatible with the organisation's objectives or risk tolerance. This strategy aims to prevent exposure to high-risk scenarios altogether.

Transferring a Risk

Transferring a risk involves shifting the financial or operational responsibility for the risk to a third party (e.g., an Insurance Company). Texmaco may achieve risk transfer through insurance policies, contracts, or partnerships. By transferring risks, Texmaco can mitigate its potential losses by allocating them to entities better equipped to manage or absorb those risks. This strategy helps share the risk burden and protect the organization's resources.

Accepting a Risk

Accepting a risk means consciously acknowledging its existence and choosing not to take specific actions to mitigate or avoid it. Texmaco may accept certain risks when their potential impact is within manageable limits and aligns with the organisation's risk appetite. This strategy is employed when the cost of risk mitigation outweighs the possible consequences, allowing Texmaco to focus resources on higher-priority areas.

5.2 Parameters to be considered for choosing an optimal Risk Response

1. Cost Effectiveness (How cost-effective is the response?)
2. Resource Availability (What is the degree of availability of resources needed to Execute the response?)
3. Effectiveness (How effective would the response manage the risk?)
4. Ease of Implementation (How easy will it be to implement the response?
5. Secondary Risk (Will the response result in secondary risks?)

5.3 Guidelines for Cost Analysis

In case of risk management and taking the appropriate response to any risk arising, a cost analysis should be done to compare the costs associated with 'At-Risk assets' along with their valuation and the investments related to addressing the risk. These assets may include Infrastructure, Employees' Safety, Compliance Violation, Reputational Loss (intangible), Revenue Projections (customers, orders, damage compensations, etc.) and more.

The following guidelines should be followed:

- Evaluate and clearly define the potential impact of the risk on Texmaco's objectives, operations, and stakeholders.
- Identify and quantify all direct and indirect costs associated with addressing and not addressing the risk.
- Thoroughly analyse the potential benefits of implementing risk response measures, considering various aspects such as improved efficiency, reputation enhancement, and resource optimisation.
- Conduct a comprehensive comparative analysis, weighing the estimated costs against the expected benefits of risk response strategies.
- Utilize predetermined financial decision criteria, such as net benefit or return on investment, to guide the selection of the most suitable risk response strategy.

5.4 Action Identification Guidelines

Once all five parameters are considered for each type of risk response, the optimal response will be chosen.

RISK RESPONSE	INSTRUCTIONS
Mitigate	Proceed with implementing control measures if projected benefits outweigh costs, if resources are available, the response will effectively address the risk, the answer has reasonable ease of implementation, and there is no possibility of secondary risk.
Avoid	Consider refraining from the activity if costs and other parameters significantly surpass potential benefits.
Transfer	Explore risk transfer options through insurance or contracts if available and economically justifiable.
Accept	Opt to accept the risk if costs exceed benefits, but the risk remains manageable.

5.5 Action Tracking Guidelines

The tracking of actions associated with risk management and response should follow the below guidelines across departments and the overall enterprise:

- Regularly revisit and reassess the cost-benefit analysis, considering changes in circumstances, to ensure the chosen risk response strategy remains optimal.
- Revisit the risk Exposure Value (EV) after each risk review.
- Maintain open communication with relevant stakeholders, providing transparent updates on the status of Action items.
- Continuous assessment of the alignment of implemented actions with evolving circumstances and modifying/introducing strategies/new measures to address unforeseen developments and ensure ongoing relevance.

6. Risk Review, Reporting and Communication

6.1 Department Level Risk Review

- The Department-Level Risk Review process shall comprehensively evaluate potential risks and opportunities intrinsic to each department's functions, objectives, and projects.
- The Department-Level Risk Review shall be conducted regularly in coordination with Texmaco's Risk Management Framework.
- The review session agenda shall include a comprehensive examination of departmental risk assessments, progress on action items identified in the action tracking process, and the effectiveness of existing risk mitigation strategies at the department level.
- Detailed minutes shall be captured during the review session, documenting risk discussions, action updates, and decisions made.
- During the review, departments shall assess if any risk triggers criteria for escalation to the next level, such as higher management or the ERM Team, which aims to ensure risks with significant implications receive appropriate attention.
- Risk assessments, action updates, and escalation criteria shall be integrated into departmental risk reports, contributing to the organisation's broader risk review and reporting mechanisms, and shared with the ERM Team.

6.2 ERM Level Risk Review

- The Enterprise-Level Risk Review shall entail a comprehensive evaluation of risks and opportunities that impact Texmaco as a whole.
- The Enterprise-Level Risk Review shall be a recurring event that aligns with Texmaco's risk management calendar.
- The review's agenda shall encompass a holistic analysis of enterprise-wide risk assessments, updates on action items tracked in the previous phase, and the effectiveness of overarching risk response strategies.
- Detailed minutes shall be captured during the review session, documenting risk discussions, action updates, and decisions made.
- During the review, a critical evaluation shall be undertaken to determine if certain risks warrant escalation to the highest levels of management, including the Board or Risk Management Committee, based on predefined escalation criteria.
- The discussions, strategies and actions from the Enterprise-Level Risk Review will be appropriately documented into enterprise-level reports and risk database to be further communicated with the senior management and Board of Texmaco.

6.3 Board/Risk Management Committee Level Risk Review

- The Board/Risk Management Committee Level Risk Review shall be a preeminent fixture on the governance agenda.
- The Board/Risk Management Committee Level Risk Review shall include a meticulous examination of action item updates from previous phases and a critical appraisal of the effectiveness of overarching risk response strategies.
- Minutes from this review shall encapsulate the essence of risk discussions, action item updates, and the strategic decisions made exclusively at the Board/Risk Management Committee level.
- The Risk Management Committee shall exercise its authoritative judgement to determine whether specific risks warrant escalation to the highest echelons of governance, the Board of Texmaco.
- Insights, strategic imperatives, and actions stemming from the Board/Risk Management Committee Level Risk Review shall be meticulously documented within high-level reports and the risk database.

6.4 External Reporting on Risks

Based on the regulatory emphasis on Enterprise Risk Management (ERM), the information on establishing the Risk Management Committee's corporate governance around the risk management initiatives must be adequately disclosed.

Guidelines for External Reporting:

- The Annual Report of the Company shall include a comprehensive detailing of RMC composition, members, Chairperson, and meetings held during the year.
- The report should identify critical risks that could threaten the company's existence, as per the Board's assessment, along with measures taken to mitigate such risks.
- The Audit Committee shall incorporate its evaluation findings into its regular reports to the Board, ensuring transparent communication on risk management effectiveness.
- The RMC, Audit Committee, and Independent Directors shall regularly review and report on risk management practices, aligning with Texmaco's governance calendar.
- The Independent Directors shall satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible.
- Reporting should occur annually, with additional reporting as necessary during significant changes, strategic shifts, or exceptional circumstances.

6.5 Internal Communications on Risks

Effective internal risk reporting is a cornerstone of Texmaco's risk management framework. This section outlines the comprehensive approach to risk reporting, detailing which risks are communicated to the Board and the entire enterprise, the reporting format, and the reporting frequency.

Reporting Format

- Board-Level Reports: Board-level risk reports shall be comprehensive, focused, and tailored to meet the strategic oversight needs of the Board. These reports should concisely highlight the top risks, their potential impacts, mitigation strategies, and the alignment of risk responses with Texmaco's strategic objectives.
- Enterprise-Wide Communications: For risks communicated to the entire enterprise, regular updates shall be disseminated through meetings, newsletters, and digital platforms. These communications should emphasise risk awareness, preventive measures, and the collaborative effort needed for effective risk mitigation.

Cultivating Risk-Awareness Culture in the Organisation

- Board-Level Discussions: Periodic interactive sessions shall be held between the Risk Management Committee and the Board. These sessions allow for in-depth discussions on high-impact risks, their evolving nature, and the effectiveness of mitigation strategies.
- Enterprise-Wide Workshops: Cross-functional workshops and seminars will engage employees across departments. These sessions encourage open dialogue, knowledge sharing, and collaborative problem-solving for managing departmental and enterprise-wide risks.

The Policy shall evolve by review by the Board from time to time as may be necessary.