

HASSAN MANGALORE RAIL DEVELOPMENT COMPANY LTD

(A JOINT VENTURE OF MINISTRY OF RAILWAYS & GOVT. OF KARNATAKA)

RISK MANAGEMENT POLICY



HASSAN MANGALORE RAIL DEVELOPMENT COMPANY LTD.,
(A JOINT VENTURE OF MINISTRY OF RAILWAYS & GOVT.OF KARNATAKA)

Sr. No.	Contents
1.	1.1 Definitions
2.	1.2 Objectives of The Policy
3.	1.3 Risk Management Policy
4.	1.4 Identification and Categorization of Risks
5.	1.5 Risk Estimation
6.	1.6 Risk Matrix
7.	1.7 Risk Strategy
8.	1.8 Key Implementation Areas for Risk Mitigation
9.	1.9 Approval and Review of the Policy



RISK MANAGEMENT POLICY OF HMRDC

1.1 DEFINITIONS

1.1.1 Risk

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk.

1.1.2 Risk Management

Risk Management is the process of systematically identifying, quantifying, and managing all risks and opportunities that can affect achievement of a corporation's strategic and financial goals.

1.1.3 Risk Strategy

The Risk Strategy of a company defines the company's standpoint towards dealing with various risks associated with the business. It includes the company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the company.

1.1.4 Risk Assessment

Risk Assessment is defined as the overall process of risk analysis and evaluation.

1.1.5 Risk Estimation

Risk Estimation is the process of quantification of risks.



1.1.6 Risk Tolerance/Risk Appetite

Risk tolerance or Risk appetite indicates the maximum quantum of risk which the company is willing to take as determined from time to time in accordance with the Risk Strategy of the company.

1.1.7 Risk Description

A Risk Description is a comprehensive collection of information about a particular risk recorded in a structured manner.

1.2 OBJECTIVES OF THE POLICY

The main objective of this policy is to ensure sustainable business growth with stability and to promote a pro-active approach in reporting, evaluating and resolving risks associated with the business. In order to achieve the key objective, the policy establishes a structured and disciplined approach to Risk Management, including the development of the Risk Matrix, in order to guide decisions on risk related issues. The specific objectives of the Risk Management Policy are:

- A. To ensure that all the current and future material risk exposures of the Company are identified, assessed, quantified, appropriately mitigated and managed.
- B. To establish a framework for the company's risk management process and to ensure company wide implementation
- C. To ensure systematic and uniform assessment of risks related with Railway Operations and construction works in HMRDC line.
- D. To assure business growth with financial stability.



1.3 RISK MANAGEMENT POLICY

In order to fulfill the objectives of this policy and lay a strong foundation for the development of an integrated risk management framework, the Risk management policy is stated below:

- A. To ensure protection of shareholder value through the establishment of an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks
- B. To provide clear and strong basis for informed decision making at all levels of the organization
- C. To continually strive towards strengthening the Risk Management System through continuous learning and improvement

The policy guidelines are devised in the context of the future growth objectives, business profile envisaged and new business endeavours including new services that may be necessary to achieve these goals and the emerging global standards and best practices amongst comparable organizations. This policy is meant to ensure continuity of business and protection of interests of the investors and thus covers all the activities within the company and events outside the company which have a bearing on the company's business. The policy shall operate in conjunction with other business and operating/administrative policies.

1.4 IDENTIFICATION AND CATEGORIZATION OF RISKS

Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives.



Recognizing the kind of risks that company is/may be exposed to, risks will be classified broadly into the following categories:

- A. **Strategic Risk:** include the range of external events and trends (like Government policy, competition, court rulings or a change in stakeholder requirements) that can adversely impact the company's strategic growth trajectory and diminishes the shareholder value.
- B. **Business Risk:** include the risks associated specifically with the company and having an adverse impact on the company's capability to execute activities critical for business growth, thereby affecting its near-term performance.
- C. **Operational Risk:** are those risks which are associated with operational uncertainties like unpredictable changes in weather conditions, force majeure events like floods, Landslides, earth fall etc., affecting operations internal risks like attrition etc.

The various risks that the company is or can be exposed to are identified in the Risk Matrix.

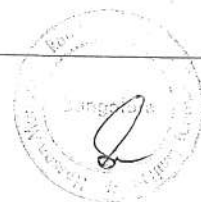
1.5 RISK ESTIMATION

In this process, the consequences of the risk occurrences have to be quantified to the maximum extent possible, using quantitative, semi-quantitative or qualitative techniques.

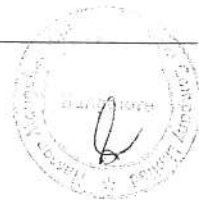


1.6 RISK MATRIX

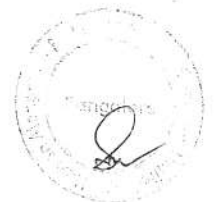
Sl. No.	Risk Head	Risk Description	Risk Trigger	Proposed Risk Mitigation Mechanism	Responsibility
1	Political	Unilateral policy changes	Announcement of Railway Budget and Policy Changes	a) To liaise with Ministry of Railways and participate in review meetings b) Have strong legally binding agreement(s) with Ministry of Railways once the project is allocated.	Management & CEO/HMRDC
2	Market Dynamics	Unscheduled Hike in hire charges for rolling stock and fuel Charges.	Central Government announcement	To pursue with Ministry of railways and adhere to the norms being issued from time to time in respect of hire /fuel charges as per the various agreements executed by the Company.	Management & CEO/HMRDC
3	Awarding of Contracts by SWR for approved works of HMRDC.	Threat of Exceeding the value of contracts. (Cost and Time Overrun)	>Delay in execution of work. >Under estimation of quantity of work.	a) Sufficient care has to be taken to protect the company from adverse effects of time and cost overruns and also discuss with DRM/MYS & Other SWR Officers. b) Develop and place an Internal Mechanism to constantly monitor, review the works from time to time to avoid cost overruns. c) Fix appropriate Responsibility Centre for managing the costs. d) Clause of penalty for time/cost overrun shall be enforced and the penalty amount to be remitted to Company by SWR apart from bearing the unjustified cost of time/cost overrun by SWR.	DRM/MYS & CEO/HMRDC
4	Force Majeure	a) Impact of natural calamity like floods, heavy rainfall b) Earthquakes c) Land slide/Earth slip	Continuous	a) Indemnify the company against possible losses by insuring the assets of the Company under natural calamity/fire risk insurance policy b) Develop disaster management plan for each project with delegation of responsibility c) Take necessary design measures to mitigate the risk of landslides/earth slip by taking up necessary protection works like gabian	SWR & CEO/HMRDC



				wall, removal of over burden, construction of retaining wall, boulder netting work etc., at identified/vulnerable/potential land slide/earth slip Locations.	
5	Socio-political	Impact of Relief & Rehabilitation (R&R) Delays in case of new projects.	Impact on critical path time	<p>a) Liaise with State Government's R&R department/directorate and with District collector/administration to abide with State procedures</p> <p>b) Effectively communicate the benefits of the project to the population in the project area in order to get the co-operation of the local population.</p> <p>c) Actively engage with local bodies as part of local area development committee to discuss the modalities of the company's social responsibility and enter in a written agreement with local bodies.</p> <p>d) To carry out proactive CSR activities in key areas including communicating benefits of projects to the public at large in the project area to ensure public by-in for land acquisition and R&R activities.</p> <p>e) Factor in the social costs as part of its CSR/R&R and the overall project budget and work out costs accordingly. Based on past experience, estimate the cost of social infrastructure and creating employment opportunities and include the same under R&R.</p>	SWR and HMRDC
6	Political	Delays due to lack of Government support- Problems of Law & Order in the States, Delay in approvals etc.	Continuous	<p>a) Do proactive liaising with Government departments to maintain healthy relations</p> <p>b) Identify the various State Government departments such as Environment and Forests, Public Works Department, Department of Home etc. which contribute mainly towards the delays and sensitise them about the various issues relating to the project. This matter may be taken up with the concerned</p>	Management, CEO/HMRDC & SW



				<p>Ministry for preparation of necessary guidelines for faster approval/process, highlighting the importance of such projects for the development of State or region</p> <p>c) Pursue State Governments to involve public/local bodies upfront during the award stages itself i.e. prior to construction. Make sure that support of all public/local bodies is clearly outlined in the Implementation Agreement.</p> <p>d) Analyze the procedures involved in various clearances and interactions with the Government and identify and suggest opportunities of improving the same. Also, adopt a mechanism to review the progress of each stage and take corrective action to prevent delays</p> <p>e) For infrastructural works consider hiring local agencies. This will ease and expedite building of infrastructures for a given project.</p>	
7	Operating environment	Extreme weather conditions leading to uncertain working environment for contractors and employees and consequent delay in works completion	Impact on critical path time	<p>a) Timelines for such works/projects should be estimated taking into consideration the past weather conditions data</p> <p>b) The force majeure clause of the tender specifications for execution of the contract should be suitably amended to incorporate the known weather conditions.</p>	SWR
8	Business logistics	Non availability and/or price hike of raw materials like cement, steel etc.	Cost overrun	Prescribe minimum inventory norms for critical raw material and monitor regularly its movement. Penalty can be included in the contract conditions for not meeting the average inventory norms by the contractor even without any disruption of works on such account	SWR



9	Contractor Management	Contractor issues like equipment problems, construction methodology, labor unions, poor labour quality and scarcity of contractor labour, Delay in Machinery & equipments supply	Impact on critical path time or cost overrun	<p>a) Develop a screening filter for weeding out non-serious bidders and/or put erring contractors under a negative list to forbid them in future tenders participation. Publish such list of erring contractors to deter growth of such vendors.</p> <p>b) New contractors to be avoided for the award of critical assignments.</p> <p>c) Tenders to be extensively advertised to allow maximum vendors to participate in the tendering process. Expert foreign companies to be encouraged.</p> <p>d) Build a Vendor Information and Rating System to allow evaluation of all vendors. Implement contractors' performance feedback system.</p> <p>e) Include suitable penalty clause in the machinery & equipments purchase agreement for delay in delivery of project critical machinery and equipments</p> <p>f) Consider foreign suppliers with proven technologies for supply of machinery & equipments to reduce dependence on its existing source of suppliers.</p>	SWR
10	Operating environment	Hydrological surprises like heavy rainfall etc.	Continuous	Mitigate this risk as part of the project design for preparing the detailed project report	SWR
11	IT & Communication Security	Insecure IT system	Continuous	<p>a) IT Security Policy be framed and implemented to minimise disruption of IT services due to malware attacks and also pilferage of information.</p> <p>b) A Disaster Recovery Site as part of Business Continuity Plan be developed at an alternate location.</p>	CEO/HMRDC
12	Repair & Maintenance	Inadequate equipment and civil maintenance leading to loss	Frequent break down	a) Annual preventive maintenance and minimum inventory plan for spares to be adhered to minimise breakdown losses.	SWR & CEO/HMRDC



		of revenue		b) Conduct an analysis of past data to check if maintenance schedules and norms are effective.	
13	Contract Works not approved by HMRDC undertake n by SWR.	Works taken up without the knowledge/app roval of Company	Continuous	Mandatory for SWR to notify the proposed works well in advance and take prior approval before commencement of work. No post facto approval shall be entertained.	SWR, CEO/HMRDC.
14	Managem ent of executed Agreement s.	Violations of Agreements executed.	Continuous	To strictly enforce the Agreements executed.	SWR, CEO/HMRDC

1.7 RISK STRATEGY

The following framework shall be used for the implementation of the Risk Strategy.

Based on the Risk Appetite/Risk Tolerance level determined and reviewed from time to time, the company should formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

- ❖ Avoid or not take risky initiatives
- ❖ Share risks with third party to transfer certain risks
- ❖ Take risk reduction measures
- ❖ Manage the residual risks by timely reporting and early warning signals. All risks that are not avoided or transferred are retained by default.

This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible.



1.8 KEY IMPLEMENTATION AREAS FOR RISK MITIGATION

The following are the key areas where risk mitigation measures need to be implemented:

- ❖ Strengthening of Internal Processes
- ❖ Liaison with Ministry of Railways and Other Authorities
- ❖ Contract Management by SWR & monitoring by the Company.

Effective maintenance of the system will require the following actions:

- a) The Chief Executive Officer of the Company will meet periodically with the SWR Officers to identify specific business risk and analyses the risk in terms of consequences, if the risk materializes.
- b) Among all the risks identified the CEO will prioritize and focus on key risks and their mitigation measures
 - ❖ Identified risks will be assessed in terms of potential consequences and cost of impact
 - ❖ Risks will be ranked in accordance with their likely impact
 - ❖ The acceptability of each identified risk will be assessed
 - ❖ Proposed actions to eliminate, reduce or manage each material risk will be considered and agreed
 - ❖ Responsibilities for the management of each risk will be assigned to appropriate managers
- c) Based on a cost/benefit assessment of a risk, as is undertaken, some risks may be judged as having to be accepted because it is believed mitigation is not possible or warranted.
- d) As the risk exposure of any business may undergo change from time to time due to continuously changing environment, the updating of the Risk Matrix will be done on a regular basis.



1.9 APPROVAL AND REVIEW OF THE POLICY

The Board will be the approving authority for the company's overall Risk Management System. The Board will, therefore, monitor the compliance and approve the Risk Management Policy and any amendments thereto from time to time. The policy will be the guiding document for risk management at HMRDC and will be reviewed once in a year due to the changes in the risk management regulations/ standards/ best practices as appropriate.

For HASSAN MANGALORE RAIL DEVELOPMENT
COMPANY LIMITED


S.N. SRINIVASA
Company Secretary