

ENTERPRISE RISK MANAGEMENT

Overview

The Group, consisting of several business units many of them in relatively diverse areas, is exposed to a variety of risks inherent to commercial ventures. It is, therefore, important for a business to identify the variety of risks it is exposed to, examine the likelihood of occurrence and the extent of impact that an occurrence may cause thus calling for processes and systems encompassing enterprise risk management. Enterprise risk management helps the entity to effectively deal with uncertainty. Enterprise risk management is an integral part of Group's business strategy. Risk management reconciles the two dimensions of enterprise governance namely, conformance and performance.

The Challenge

Uncertainty provides both risk and opportunity with a potential to erode or enhance value. The challenge for management is to determine acceptable limits of such uncertainty.

Guiding Principle

The guiding principle is that the Company takes well calculated risks in order to enhance value while protecting the integrity and well-being of the Company. The Company's strategy reflects the risk appetite of the Company. Risk appetite is the amount of risk exposure or the potential adverse impact that an entity is willing to accept, accompanied by the organisational risk capacity.

Risk Mapping

Risk mapping is carried out in order to assess the likelihood of occurrence and the impact on the business in the event of occurrence. It is based on the following:

- Likelihood of occurrence is measured on the basis of past experience and the preventive measures in place. A ranking of high, medium and low in terms of the probability of occurrence is assigned for each risk.
- The impact of the event is assessed by ascertaining the loss it would inflict (financially, operationally or both) and the extent of the impact. By considering these two factors the impact is categorised as minor, moderate and significant.

IMPACT	RISK MANAGEMENT ACTIONS		
	Significant	Considerable management required	Must manage and monitor risks
Moderate	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
Minor	Accept risks	Accept, but monitor risks	Manage and monitor risks
	Low	Medium LIKELIHOOD	High

Risk Exposure

The likelihood of occurrence and the significance of the impact are assessed based on available information and mapped on the model laid out above. The model would indicate the extent of the Risk Exposure and Risk Management actions that the exposure encompasses.

The risk exposure assessed is set out under each type of risk discussed below.

Economic Risk

Economic risks are those changes in the economic environment that have the potential to affect the company adversely.

The economic risk was manifested in the drop in vehicle sales during the year under review. High interest rates, a conservative lending policy, high tariff are all economic factors that affected sales. High interest rates had a further impact on the results through an increase in finance costs.

Prudent management of costs and working capital were two measures that helped to mitigate the impact.

Risk Exposure

Likelihood: High **Impact:** Moderate

Market/Portfolio Risk

The vehicles and vehicle parts/service segments that form the Group's core business, accounts for 75% of its turnover. Although the Company has taken steps to diversify its product portfolio in recent years it is still heavily dependant on the

automobile industry. The Groups' strategy is firmly directed towards reducing the imbalance in the product portfolio. The Group is developing its competencies in the areas of marketing and distribution and in providing engineering solutions to Power, Healthcare, Water and Industry sectors.

Risk Exposure

Likelihood: Low **Impact:** Significant

Disaster Related Risks

Damages from fire and floods have been identified as key disaster related risks that the Company carries. Indemnity from insurance is the risk management measure taken to mitigate losses from such disasters. Preventive measures of safety are taken to minimise damage and specific attention is given to situations where such risks can not be adequately covered by insurance.

There was no incident during the year relating to this risk that affected the profitability of the group during the year.

Risk Exposure

Likelihood: High **Impact:** Low/Moderate

Foreign Exchange Rates

Foreign currency exposure arising out of trading activities is hedged through forward contracts, when desirable. An impact on profits arises when translating foreign currency assets and liabilities into local currency at the Balance Sheet date.

A hedging of this impact is available to the extent that trade receivables and foreign currency bank account balances cover the exposure on foreign currency payables.

Profits or Losses that arose due to fluctuations in foreign exchange rates have been appropriately accounted for in the Income Statement.

Risk Exposure

Likelihood: High **Impact:** Low/Moderate

Credit Risk

Strict control measures are in place to mitigate the credit risk. Credit facilities are extended to customers in accordance with Group Credit Policy. Customers are evaluated prior to extending credit facilities to them. Processes employed for credit extension include approvals prior to granting credit facilities, periodic review of receivables by senior management, credit suspension on overdue accounts and legal procedures for recovery of long overdue receivables.

Risk Exposure

Likelihood: High **Impact:** Low

Liquidity

Unavailability of sufficient funds may disturb the smooth functioning of the Company's day-to-day operations. The Group seeks to ensure that banking facilities are in place to cover its forecasted cash needs for a period of at least twelve months. Cash requirements of the Group are regularly and closely monitored and matched with banking facilities available in order to ensure that requisite funds are available for operations and investment.

The Group possessed adequate funds and bank facilities to facilitate an uninterrupted and smooth functioning of its operations. The Directors are of the opinion that the Group possesses adequate bank facilities required to carry out its operations unhindered. The unutilised bank facilities/overdraft facilities as at 31st March 2009 were Rs. 2,943 mn (Rs. 3,321 mn as at 31st March 2008).

Risk Exposure

Likelihood: Low **Impact:** Significant

Industry Risk

Industry risks arise from sudden changes within each industry. These could be driven by new customer trends such as the demand for fuel efficient and environmentally friendly cars or it could result from the entry of new/alternative products into the market. With a view to minimising these risks, the Company closely monitors developments in the international market and also competitor strategies and promptly develops counter strategies as necessary. An effort is made to strongly position the Dimo brand and explore every available opportunity for the introduction of new and innovative products. The Company represents global leaders and is in a position of advantage through the constant technological innovations achieved by them, allowing us to offer superior products to the market.

The impact of any occurrence due to the industry risk was not felt in a significant manner during the year.

Risk Exposure

Likelihood: Low **Impact:** Significant

Relationships with Principals

Our relationships with principals are one of the mainstays of our business and a disruption of this can have negative consequences.

The Company has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk. Targets are met and aspects such as after care conform to the rigorous standards set down by principals. We are constantly looking for new opportunities to develop relationships with new principals and to reduce our dependence on any single sector or principal.

The year under review did not give rise to any occurrence in respect of relationships with principals that seriously affected the overall performance.

Risk Exposure

Likelihood: Low **Impact:** Significant

Human Resources

Risks stemming from the Company's human resource base have also to be managed. The Company's human resources are its most

important asset and recruitment and retention of committed and capable employees are a constant challenge. A succession plan minimises the impact that the exit of employees has on the performance of the Company.

The employee attrition rate for the year Nos. 14% Information gathered at exit interviews and the results of the employee satisfaction surveys are used to address this risk factor.

Risk Exposure

Likelihood: Low **Impact:** Significant

Labour Relations

The regular meetings of the Employee's Council provide a forum to discuss employee concerns and help the management to respond and address them adequately. The Company's remuneration package is in line with market rates. Regular training is provided to our employees both to motivate them and also to expose them to state-of-the-art technology.

The employee satisfaction index appears on page 59.

Risk Exposure

Likelihood: Low **Impact:** Moderate

Compliance with Laws & Regulations

Laws, regulations and accepted principles have a considerable impact on any business. Regular review of compliance is carried out by the Management, Audit Committee and Internal Auditors. The Group Management Committee is tasked with the responsibility of identifying any changes to legislations and subsequent education of relevant personnel in an expeditious manner.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Loss of Data

The Company operates within a fully computerised environment and the loss of important data arising from technological failure is another risk we have to guard against. The Company employs various measures such as regular back-up of data to guard against

GOVERNANCE REPORT

ENTERPRISE RISK MANAGEMENT

and minimise the risk of data loss. Regular maintenance of our equipment ensures that the risk of system failure is minimised. Off-site storage of data back-ups is another measure taken to minimise risks.

There was no incident during the year relating to this risk that affected the profitability or operations of the Group during the year.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Information Security

Employees are made aware of the importance of ensuring security of information and maintaining confidentiality measures to mitigate the risks in this area include restriction of access to information in certain instances. The ethical values that we propagate also stress the need to maintain confidentiality.

During the year, the employees signed and acknowledged their commitment to the Code of Ethics of the Group. There was no incident during the year relating to this risk that significantly affected the profitability of the Group during the year.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Frauds & Errors

The management has put in place a system of internal controls, to minimise the risk of fraud and irregularities and to safeguard the Group's assets. Internal controls include continuous internal audit, the findings of which are reviewed by the management as well as the Audit Committee.

The Internal auditors met the Audit Committee 4 times during the year. There was no occurrence under this risk category reported to the Audit Committee that would affect the Group's Profit in a significant manner.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Customers

The Company's Customer Relationship Management process helps it respond effectively and efficiently to customer complaints and to develop relevant solutions. The Company is constantly upgrading its level of after care and employees are periodically trained in this regard. We promote customer loyalty through a number of innovative schemes and have developed a diverse customer base.

Data relating to number of customers and customer satisfaction index is available in the operational review from page 16 to page 45.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Technological Obsolescence

The non-availability of state-of-the-art technology can have an impact on performance. The Company makes regular investments in cutting edge technology. Staff are constantly exposed to new technologies and trained in the better application of existing technologies.

Capital Expenditure relating to workshops and IT during the year amounted to Rs. 28 mn and Rs. 7 mn respectively. Overseas training during the year in relation to update of knowledge and skills on technical aspects and products and services amounted to 1,624 hours.

Risk Exposure

Likelihood: Low **Impact:** Moderate

Risk Management Process

The identification, development, implementation and review of an effective risk management strategy are under the purview of the Audit Committee. This is done through evaluation of internal audit findings. Based on the findings of the internal audit, the internal Auditors attach a ranking to each area of business, which is used for further planning of Risk Management. The monthly operating results that include key data, periodic reports, and special investigation reports also serve as early warning systems to track the risk potential or any emerging risks.

There are two key activities that enable the organisation to identify risks. They are strategic planning and review of business units and internal audit. Once the risks are identified monitoring measures are embedded into the business plans. The Board of Directors and the Audit Committee continuously review the implementation of the selected strategies and if necessary, take steps to modify or change it.

The Group Management Committee (GMC) is responsible for directing business units on risk management. The heads of business units convey their views on aspects of risks and their management to the respective GMC member which in turn, will be discussed at the Management meetings. The finance function also assists GMC in identifying operational risks. The findings of the Finance Department are communicated to the members of the management team concerned for necessary action.

An effective system of Internal Controls is in place to minimise the risk of irregularities and fraud taking place within the Company. However, a sound internal control system can only provide a reasonable assurance that it will bring to light within a reasonable time any irregularity or non-compliance.

Monthly Operational Results

Monthly operational results are used as a risk review mechanism by identifying significant deviations from original objectives. This in turn, enables the management to take early corrective steps.

Internal Audit Reports

Internal audit reports may include any non-compliance with policy, laws or processes. Non-compliance with laws and regulations has financial and non-financial implications. They also recommend improvements to the existing systems and procedures to strengthen the internal controls within the organisation. In order to ensure previously reported irregularities are not repeated; follow up actions are also regularly monitored.