

ENTERPRISE RISK MANAGEMENT

Overview The Group operates in a constantly evolving environment, which exposes it to risk factors and uncertainties brought about by the changing environment. In addition, the Group has to manage risks that arise from its operations. Thus, a need to identify and systematically manage risks. The systematic approach required for risk management calls for a framework that ensures that risks are identified on time, evaluated in terms of risk appetite of the Group and effective management and monitoring.

Uncertainty provides both risk and opportunity with a potential to erode or enhance value. The challenge for the management is to determine acceptable limits of such uncertainty. A carefully-designed risk management framework facilitates striking of a balance between risk and rewards in the context of the Group's risk appetite.

While the Group remains committed to increasing shareholder value by developing and growing our business within the Board-determined risk appetite, the Group is committed towards achieving this objective in line with the interests of all stakeholders.

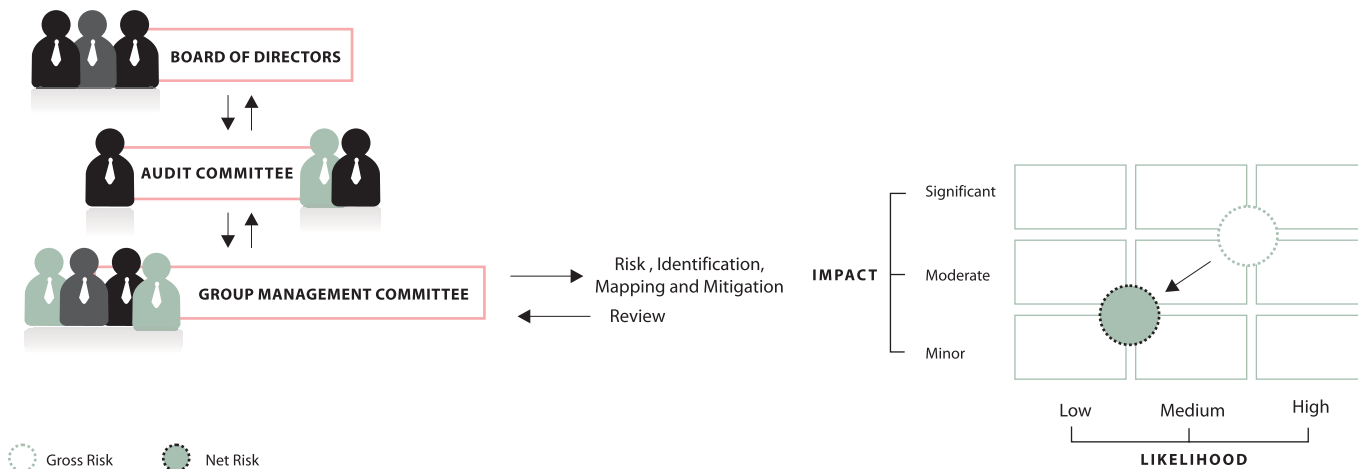
Risk Management Framework The effective risk management within the Group underpins the achievement of Group's objectives and sustained growth.

The Board is primarily responsible for ensuring that the risks are identified and appropriately managed across the Group. The Audit Committee has been delegated the responsibility for reviewing the effectiveness of the Group's Risk Management Framework, including the systems established to identify, assess, manage and monitor risks.

The Group Management Committee (GMC) is responsible for the identification of risks that the Group is exposed to and monitoring the risks identified. The GMC examines processes and events that expose the Company into situations that could seriously reduce earnings, impair its liquidity position and create legal, regulatory or reputation risks. The GMC also evaluates options available to mitigate risks and to identify risks that do not match the risk appetite of the Group.

All assessments of risk take in to account the likelihood of an event and its potential impact on the business. Impacts are quantified or assessed in terms of potential loss or damage. Risks are assessed both as gross risk and net risk. The assessment of gross risk involve the potential harm that a risk can cause without mitigating actions, whereas net risk assessment considers potential harm or loss after mitigating action is taken. Risks and their corresponding mitigating action plans are reviewed by the GMC.

RISK MANAGEMENT STRUCTURE AND PROCESS



Risk Mapping

Risk mapping is carried out in order to assess the likelihood of occurrence and consequence of an event/set of events. It is based on the following:

- Likelihood of occurrence is assessed on the basis of past experience and forecasts. 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 determining the loss it would cause and the extent of the impact. By considering these two factors the impact is then categorised as minor, moderate and significant.
- The risk exposure is identified at two different levels. Initially, the gross risk, where the exposure is looked at prior to mitigating actions. Secondly, the exposure is looked at after the planned mitigating actions, which is called the net risk.

Risk management action matrix: Upon identification of the likelihood and the impact of the risk, the following risk management action matrix is used to decide on further actions to be taken. The actions included in the matrix provide an indication of the intensity and frequency of managing/monitoring the relevant risks.

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RISK MANAGEMENT ACTION MATRIX



Credit Risk

Description

Company extends credit facilities to customers during the course of business.

Potential Impact

Poor credit management would lead to bad debts.



What we are doing to manage it?

Credit facilities are extended to customers in accordance with Group credit policy. Customers are evaluated prior to extending credit facilities. 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.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	M	M	M

Obsolescence of Inventory

Description

Inventory items run the risk of being obsolete due to slow moving.

Potential Impact

Obsolete inventory items affect profitability.



What we are doing to manage it?

Effective inventory management processes have been employed for inventory ordering including approvals and periodic review of inventory positions by senior management, Age analysis of inventories is reviewed periodically with a view to taking special action against slow moving inventory. Timely action reduces the risk of obsolete inventory.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	L	L	L

Fraud & Error

Description

The company is exposed to the risk of Fraud & Error.

Potential Impact

Material fraud/misappropriation of funds would lead to losses.



What we are doing to manage it?

Appropriate internal controls have been installed with a view to minimising fraud and error. A continuous internal audit is carried out by a firm of chartered accountants in order to verify the effective functioning of the internal controls and their adequacy. The internal audit findings are discussed at the Group Management Committee meetings and the Audit Committee meetings. The corporate governance report appearing on pages 84 to 116 provides more information on internal controls and the internal audit function.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	M	M	M

Information Technology/Data Security Risk

Description

The Company is heavily dependent on the IT systems as most of the processes are IT driven. The databases carry sensitive data of the business which should not be accessible to unauthorised personnel.

Potential Impact

Breach of information security could cause losses to the Company. Failure to manage the IT systems could result in a loss of critical business information. Such a situation may impact the Group's ability to fulfill its contractual obligations.



What we are doing to manage it?

The Company employs various measures such as regular back up of data to guard against data losses. Regular maintenance of our equipment ensures that the risk of system failure is minimised. Off-site storage of data backup is another measure taken to minimise risk. The Company has in place a disaster recovery plan as part of its information system management. Further, the Group has developed and rolled out formal information security standards. Significant investments have been made towards protecting the IT system from failures and security breaches.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	L	L
Impact	S	S	S

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Relationship with Principals

Description

The Company's main suppliers are foreign principals and an unhindered relationship is a key factor for mutual business growth.

Potential Impact

Disruptions to business relationships with principals could have negative effects on the performance and growth.



What we are doing to manage it?

The Company has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk. It makes every endeavor to ensure that requirements of principals and targets are met. Further, principals' evaluations are carried out periodically, with a view to ensuring their satisfaction. Company is constantly looking for new opportunities to develop viable business opportunities and relationships with new principals in order to reduce the Company's dependency on any single sector. A detailed account of our relationships with principals is given from pages 56 to 59.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	S	S	S

Composition of Product Portfolio

Description

The vehicle and vehicle parts/services segments account for a significant share of the total portfolio. Changes to the fiscal policies namely: import tariff, global/local environmental standards have an impact on the local market.

Potential Impact

A significant alteration to the portfolio could have a considerable impact on results in the short-term and in the long-term.



What we are doing to manage it?

The Group is adopting a policy of gradually strengthening of businesses in the areas of marketing & distribution and in providing engineering solutions in power, water, building technologies and healthcare sectors.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	H	L	L
Impact	S	S	S

Foreign Exchange Rate Fluctuations

Description

This risk arises from exposure to foreign currency positions.

Potential Impact

Losses can arise when foreign currency assets and liabilities are translated into local currency as at the balance sheet date or when transactions are carried out in foreign currency.



What we are doing to manage it?

Foreign exchange exposure is hedged through forward contracts where it is deemed appropriate. Hedging of this impact is available to the extent that trade receivables in foreign currency and foreign currency bank account balances cover the exposure on foreign currency payables. The portfolio and losses that arose from foreign exchange rate fluctuations have been appropriately accounted for in the income statements.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	H	H
Impact	M	M	M

Interest Rate Risk

Description

The Group is sensitive to interest rate changes.

Potential Impact

Increase in interest rates could impact demand for vehicles due to high cost of financing and at the same time increase the cost of borrowings of the Company due to higher level of borrowing it has on its capital structure.



What we are doing to manage it?

Cautious management of working capital and prudent treasury management are some of the measures taken by the Company in order to mitigate the impact. The Group finances itself through a combination of fixed and floating rate debt obligations. The treasury function makes every endeavour to constantly negotiate with banks in order to obtain favourable terms of borrowing.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	M	M
Impact	S	S	S

ENTERPRISE RISK MANAGEMENT

Human Resources

Description

Company's Human resources are the most important asset as it is the backbone of the business, holding the company together. Therefore, the success of the Group depends on its ability to recruit and retain senior management and other key employees.

Potential Impact

Failure to recruit and retain appropriately skilled employees could adversely impact on the Group's ability to compete and grow.



What we are doing to manage it?

Reviews are undertaken to examine the role, competencies, performance level and potential of key personnel. In addition, the Group has a succession planning process in place to identify and develop high potential/caliber personnel to fill key roles. Appropriate remuneration and incentive packages are in place to attract and retain key employees. Monthly meetings of the employees 'council provide a forum to discuss employee concerns and help the management to respond and address them adequately. Regular training is provided to our employees to motivate them and also to expose them to state-of-the-art technology. More details on the Company's human resource is available from pages 47 to 55.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	S	S	S

Sustainability Associated Risks

Description

Lack of corporate social responsibility would lead to stakeholders' non-acceptance of the Company as a responsible corporate citizen.

Potential Impact

Non-acceptance of the Company as a responsible corporate citizen can lead to loss of confidence on the Company and consequently loss of business opportunities in the short term and long term, as well as depletion of the Company's image.



What we are doing to manage it?

The Company follows a comprehensive framework on sustainability that is embedded in to its corporate strategy. Sustainability is a part of the decision making process in day to day operations & strategy formulation. The Company follows GRI guidelines on sustainability reporting. The GRI index is available on page 223 to 231.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	M	M	M

Natural Disasters

Description

Damages from fire and floods have been identified as key disaster-related risks that the Company is exposed to.

Potential Impact

Disaster-related risks are situations that could cause losses and can adversely affect the continued operation of the business.



What we are doing to manage it?

Indemnity from insurance is the risk management measure taken to mitigate losses from such disasters. Preventive measures of safety are taken to minimise damage to people and property. The Company has a disaster recovery plan in place. Employees have been educated on the Company's disaster recovery plan.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	S	S	S

Liquidity Risk

Description

The Group has to be liquid and solvent to carry out its operations smoothly.

Potential Impact

Unavailability of sufficient funds may interrupt the smooth functioning of the Company's day-to-day operations.



What we are doing to manage it?

The finance and treasury functions ensure that banking facilities are in place to cover its forecasted cash needs for at least a period of twelve months. The Group maintains a desired mixture of cash and cash equivalents to meet the cash requirements for Group's operational and trading activities. As at 31st March 2011, the Group had Rs. 1,801.4 mn in cash and cash equivalents.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	H	H
Impact	S	S	S

ENTERPRISE RISK MANAGEMENT

Customer Relationships

Description

As a profit making entity, customers are sovereign to the Company. Maintaining positive relationships with customers is vital.

Potential Impact

Loss of customers or unhappy customers may result a financial loss to the Company. Such a situation could affect turnover and hinder the ability to acquire new customers.

What we are doing to manage it?

The Company’s customer relationship management process helps to respond effectively and efficiently to customer complaints. The Company is constantly upgrading its level of aftercare and employees are periodically trained in this regard. Company promotes customer loyalty through a number of innovative schemes. Customer satisfaction levels are checked on an ongoing basis and indexes relating to customer satisfaction are reviewed periodically. The Group’s quality management system has the ISO 9001: 2008 accreditation. A detailed report on the customers is available pages 33 to 46.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	S	S	S

Industry Trends Risk

Description

Industry risks arise from sudden changes in the industry. These could be driven by new trends, entry of new/alternative products into the market. Legislation and tariff also can cause sudden changes to the industry.

Potential Impact

Loss of sales due to sudden changes in the industry would result in financial losses. A situation of continued loss of sales can result under utilisation of resources allocated.

What we are doing to manage it?

With a view to minimising this risk, the Company closely monitors developments in its business domain, including competitor strategies. Company explores every available opportunity for the introduction of new and innovative products. The Company represents global leaders and is in a position of advantage through constant technological innovations achieved by them, allowing the Company to offer superior products to the market with the strongly-positioned Dimo brand.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	L	L
Impact	S	S	S

Early Warning Alarm System

The Company has developed an early warning system. The following diagram depicts the warning indicators relied upon:

Key Risks	Early Warning Indicators
Credit Risk	Provision for Bad Debts-trend Average Debt Collection period-Business Unit-wise
Obsolescence of Inventory	Provision for slow moving inventory - trend Stock Holding Period-Business Unit-wise
Fraud & errors Information Technology/ Data Security Risk	Reported acts of fraud and error Record of failures in the IT system Security breaches.
Relationship with Principals	Principal's satisfaction Index Revenue trends by each principal Market Share (Percentage) Actual Sales Vs Budget
Composition of Product Portfolio	Segmental Information
Foreign Exchange Rate Risk	Foreign Exchange fluctuation-trends
Interest Rate Risk	Movement in Treasury Bill rates, Market Liquidity
Human Resource	Staff Turnover Ratio(Business Unite wise) Employees Satisfaction Index
Sustainability Associated Risks	Different indicators as set out in the management report and the GRI Index
Natural Disasters	Media announcements, Weather forecasts
Liquidity	Current ratio Quick assets ratio Unutilised banking facilities Cash and cash equivalents
Customer Relationship	Customer Satisfaction Index Repeat Customer Ratio Customer Complaints reports
Industry Trends	Industry performance reports Economic indicators