

## RISK MANAGEMENT POLICY

### RAINBOW DENIM LIMITED

#### Preamble

Sub-clause VI of the revised Clause 49 of the Listing Agreement with the Stock Exchanges stipulates that every listed company shall lay down procedures to inform the Board Members about risk management and minimization procedures.

Risk management is the total process of identifying, measuring, and minimizing uncertain events affecting resources. Enterprise risk management is about optimizing the process with which risks are taken and managed. The art of managing risk is more challenging than ever. The Company needs to assess which method best suits its objectives and its business. Risk management oversees and ensures the integrity of the process with which risks are taken. This Policy identifies the risk associated with the Company and the policies required to be adopted to mitigate the same.

#### Risk Management Policies

The primary responsibility for implementation of the risk management policies shall lie upon the Board of Directors. However, with a view to ensure effective and efficient implementation of the policies, the Board may delegate authority and responsibility on various departmental heads. The Company shall periodically review the risks associated with the Company and procedures for managing the same. As and when deemed necessary, necessary changes shall be made to this Policy.

The Risk Management policy of the Company shall primarily focus on identifying, assessing and managing risks in the following areas:

- A). Company assets and property
- B). Employees
- C). Foreign Currency Risks
- D). Operational Risks
- E). Non-compliance of statutory enactments
- F). Competition risks
- G). Contractual risks
- H). IT Risk

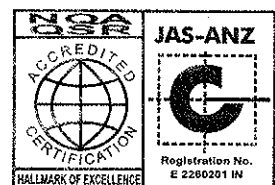


Regd. Office & Factory : Village Chaundheri, P.O. Dapper,  
Near Lalru, Ambala-Chandigarh Highway, Dist. Mohali,  
Punjab, 140506 (India)

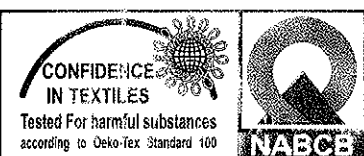
Tel. : +91 - 1762 - 248810 / 11 / 12 / 248295 / 248296

Fax : +91 - 1762 - 248761 / 248809

Email : rainbow@rainbowdenim.com



ISO 14001 : 96 Registered company



**Policy for managing risks associated with Company Assets and Property**

The policy deals with nature of risk involved in relation to assets and property, objectives of risk management and measures to manage risk.

The risk management policy relating to assets aims at ensuring proper security and maintenance of assets and adequate coverage of insurance to facilitate speedy replacement of assets with minimal disruption to operations. The role and responsibilities of the departments shall be identified to ensure adequate physical security and maintenance of its assets.

**Policy for managing risk relating to employees**

The employees constitute the most important asset of the Company. The risk management policy relating to employees is therefore necessary to cover all risks related to employees and their acts/omissions. The policy deals with the nature of risk involved in relation to employees, objectives of risk management and measures to manage risk.

In particular, the objectives of employee related risk management policy aims at reducing attrition rate, providing adequate security to employees in relation to life, disability, accident and sickness, providing adequate legal safeguards to protect confidential information, and protecting the Company from any contractual liability due to misconduct/errors/omissions of employees.

**Policy for managing foreign currency risk**

Presently, though the revenues of the Company are mainly from domestic sources, the Company is required to import raw material in large quantities from abroad. However, over a period of time, the Company may carry on business in international territories also. The Company at times may resorts to long-term and short-term borrowings in foreign currency to finance expansion plans and growth. Any such move, would attract the risks associated with the frequent changes in valuations of foreign currencies.

The objective of foreign currency risk management is to protect cash flows and profit margins from volatility on account of fluctuations in exchange rates. The policy for foreign currency risk management ensures that the finance department continuously tracks movement of foreign currencies, avails of services of experts, and hedges the risk through appropriate mechanisms such as forward contracts/options.



**Operational Risks**

The Company is constantly working to limit the operational risks which requires the combined efforts of all business and support units, and the tools required continue to be developed. Apparent trends are analysed, and various operating groups combine into task forces to address these. The business continuity plan is reviewed annually by each unit.

**Risks associated with Non-Compliance of Statutory enactments**

The Company being a legal entity engaged in manufacturing activity and listed on stock exchange(s). In view of the same, the Company is required to ensure compliance of provisions of various applicable statutory enactments. Failure to comply one or more such provisions may render strict penalties as may be prescribed under such statutory enactments.

The Company shall ensure that qualified professionals are employed to comply with various laws. In addition to the statutory audits, the Company shall promote undertaking of internal audit/s at different levels periodically to ensure timely check on the statutory compliances.

**Competition Risks**

Risk of competition is inherent to all business activities. The Company faces competition from the existing players operating in the segment in which the company operates. Considering that the Denim Sector is in the high growth phase, there is always an inherent risk that the existing competition may further get acute with the advent of new players.

The Company strategy shall be to leverage its investments thereby leading to consolidation and value creation.

**Contractual Risks**

There may be instances of defaults by Customer/s in fulfilling contractual obligations as a result of which the Company may face financial losses. Similarly, defaults by the Company in fulfilling one or more contractual obligations due to reasons such as misrepresentations, breach of warranties etc cannot be ruled out.

The company shall ensure that proper drafting of the contract and adequate indemnity clauses are incorporated in the contracts entered into with one or more parties. In addition, internal controls from technical team and strict supervisions and checks on execution of contracts and delivery be undertaken.



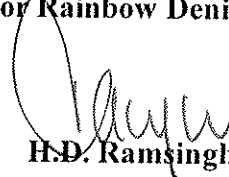
**Information Technology Risk**

The policy deals with the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an enterprise.

The Company shall ensure that qualified professionals are employed at various levels to constantly monitor and upgrade the use, operation and adoption of latest Information Technology systems and processes. In addition the Company shall also ensure that adequate safeguards and security systems are in place to protect and preserve the systems and data for the smooth and efficient functioning of the enterprise.

Place : Mumbai  
Date: 31.07.2014

**For Rainbow Denim Limited**



**H.D. Ramsinghani**  
**Chairman & Managing Director**