RISK ASSESSMENT & MINIMIZATION POLICY

In order to better address risk and adopt a more formal and comprehensive approach to risk management, "B.L.Kashyap & Sons Limited" (BLK) has formulated a "Risk Assessment & Minimization Policy" with an objective to identify, monitor, evaluate and minimize the impact of various risk associated to the Company.

Efforts are being made to make it simplistic and intuitive to facilitate a speedy and appropriate identification of potential and actual risks, its communication to the appropriate persons to enable a timely and satisfactory risk response to be initiated. Risk responses are generally along pre-set guidelines. Where guidelines do not exist, matters will be referred to BLK' Board depending on the impact severity.

Strategy

As a strategy, BLK remains cautious in its risk appetite. When faced with key decisions involving risk, BLK weighs the expected returns, both financial and non-financial, with the uncertainty of getting those returns as also the probability of any other undesirable outcomes. Only those endeavors are pursued, where the key decision makers opine that the expected returns are more likely than not to be realized allowing adequate leeway for judgment.

BLK have always sought a comprehensive view to risk management, to address risks inherent to strategy, operations, finance and compliance, and their resulting organizational impact. This approach provides the assurance that, to the best of our capabilities, the organization and all our performing units are identifying, assessing and mitigating risks that could materially impact our performance in achieving our stated objectives.

Risk identification:

External and internal risk factors that must be managed are identified in the context of organizational strategy. The overall strategy of the BLK is expressed as specific business objectives. Then, risk factors that could potentially affect performance, vis-à-vis these stated objectives, are identified. A subset of these risk factors, as applicable to the management of unit-level operations, is deployed to the operating units and departments through our organizational policies. Risk-related discussions with our regional offices are structured around these factors.

Risk assessment and control:

This includes

- risk assessment and reporting
- risk control and integration with processes and systems, and
- Capability development.

On a periodic basis, risks due to the external and internal factors are assessed by responsible managers across the organization. Prudent norms aimed at limiting exposures are integral to this Policy. These risks are formally reported through mechanisms such as operations reviews, disclosure, committee meetings, and regular updates to the risk council.

Internal controls are exercised through policies, processes and systems that have been established to ensure timely availability of information and facilitate proactive risk management.

It is the endeavor of the Company to continuously review and upgrade its existing policies, practices and control systems as well as to develop new systems to minimize the probability of incurring losses to the Company.

Risk management Policy

To ensure that we meet our stated business objectives, the key risks factors have been identified, as listed below. This Policy details these risks factors and the steps taken by us to manage the same through the process described above.

'Risk' is broadly classified by the Company into following two categories, i.e

- Internal Risks
- External Risks

INTERNAL RISKS

(i) Failure to estimate accurate risks, revenue or costs in respect of a Project

Being into Construction business, the Company procures most of its contracts on cost estimates of the project. These cost estimates are subject to a number of assumptions. If the Company fails to estimate accurately the revenues, costs, risks involved with the project, then it leads to cost overrun and the project may incur a lower profit or even a loss.

Measures taken to minimize above risk

In order to counter above risk, the Company has a created a separate department called "Bidding department" which consists of experienced professionals who are experts in this field. Every project is bidded/quoted after estimating the costs of materials, labour cost, reputation and goodwill of the person awarding the contract, size and payment terms of the contract, location of the projects etc. All the potential risks involved with a project are quantified in monetary terms by these professionals before entering into the contract thereby countering the impact of losses, if any, that may arise out the above risk.

Further, the majority of the projects procured by the Company are "Fixed Price Contracts" ("FP Contracts"). These FP Contracts are basically fixed unit contracts, which requires the Company to provide all resources on its own to complete a project for a fixed sum unit price, except steel and cement, for which an escalation clause is normally added in the contract agreement to revise the cost of the project if there is an substantial increase/decrease in procuring prices of steel and cement. These two components represent the major cost of construction material and by including an escalation clause in the contract agreement; risks arising out of increase in input prices of materials is suitably minimized.

(ii) Inability to realize the full contract value of the project

All major projects awarded to the Company are of relatively lengthy period, spanning from 6 months to 3 year. For any reason, if the contract is terminated or suspended before its expiry period, there is a possibility of non-realization of contracted amount or to recover the cost incurred by the Company on said contract. Further, inability of the Company to realize full contract value at the completion of the Project affects the profitability of the Company.

Measures taken to minimize above risk

The Contract agreement for a project is drafted in such a way that it enables the Company to receive periodical payments / installments during different phases of the project. The amount of above payment is calculated on the basis of cost likely to be incur by the Company during different phases of the project, duration of the project along with the goodwill and reputation of the Contractee. This shields the Company from incurring major losses arising out of cancellation of the contract before its completion or even non-realization of full contracted value of the project at its completion.

(iii) Loss of key managerial personnel

The Company's business substantially depends upon the continued service of its managerial personnel. The losses of services of the key managerial personnel could have a material adverse affect on the Company.

Measures taken to minimize above risk

The Company has always accorded its highest priority for the satisfaction of its employees. For this it has formulated employee friendly HR policies and has also constituted a Committee comprising of senior management personnel to look after the interest of the employees.

(iv) Failure of IT systems

Any disruptions in the functioning of IT systems of the Company could disrupt the ability to track, record and analyze the work in progress, cause loss of data and disruptions of operations arising out of inability to assess the progress of projects, process financial information etc.

Measures taken to minimize above risk

The Company has an in house IT department, headed by Senior personnel with adequate support staff commensurating with the size of the Company. This department looks after all requirements relating to IT systems, right from assessing the IT requirements of its head office, regional offices and project sites, procuring systems and accessories, monitoring and supervising existing systems, providing suitable training to the employees etc.

(v) Inability to raise funds to meet Working Capital requirements

The business of the Company requires it to raise funds from various sources in order to meet its working capital requirements and to fund its Capital expenditures. If the Company is unable to raise sufficient finances at an acceptable cost, then it hampers timely execution of the projects as well as increasing the cost of the project.

Measures taken to minimize above risk

The Company has tied up with several banks for funding its requirements of Working capital and meeting the Capital expenditure. It has availed suitable banking limits for abovementioned purpose. It has also raised money from public through its Initial Public Offer (IPO) so as to meet its all current liabilities as well as future expansion plans.

(vi) Failure to adhere timelines for executing the projects

The construction contracts of the Company are subject to specific completion schedule requirements with liquidated damages chargeable in the event the construction schedules are not adhered. Failure to adhere to contractually agreed timelines could cause damage to the reputation of the Company within the construction industry and also cause us to pay liquidated damages.

Measures taken to minimize above risk

The Company hires sufficient number of casual labour to carry out the contracted project work. Beside this, it also depute senior level employees like Project Manager, Supervisors who supervise the work on a continuous basis and ensure that the project work adheres the time limit drawn for different phases of the project. While the purchase department ensures timely delivery of the construction materials, the HR department ensures that there is no shortage of casual labour at any point of time during the construction period. The Company has also developed strong MIS reporting systems for all projects so that any requirements relating to material, labour etc. is immediately communicated to the proper channel immediately.

(vii) Competition prevailing in the Industry

New project awards are often determined either on a competitive bid process or on negotiated basis. Within the construction industry, the Company compete with many national, regional and local construction firms. It the Company is unable to compete successfully with its competitor, the relative market share and profit levels of the Company are reduced.

Measures taken to minimize above risk

We have demonstrated excellence in delivering value to our clients and are well-positioned in the markets, relative to competitors. BLK involves extensive use of technology, processes and systems developed with years of experience, execution capability and quality of talent. This provides structural advantage to our business model, making it very difficult for our competitors to replicate.

The Company strongly believes that keeping existing clients satisfied is the best marketing tool, who definitely gives more business to the Company. Therefore, sufficient care is being taken to deliver quality work to the clients and complete the project within the timeframe agreed upon at the time of contract. Further, in order to bag new contracts and have a larger market share in the industry, the Company is consciously venturing into new locations all over India. This provides it to operate more economically and bid aggressively thereby countering the risk of competition. It also enables the Company to brand itself as a Company having nation wide presence.

We continue to focus on rapidly increasing our market share and take suitable measures that help our clients and prospects make better informed decisions based on our competitive strengths.

(vii) Adequate and timely supply of raw materials and availability of labour

As in case of all Companies, man and materials are of paramount importance to our Company. Time and cost effective execution of the projects is dependant on adequate and timely supply of raw materials and labour. Being in a labour intensive industry, availability of sufficient casual labour for different projects all across the country is very important. Inability to procure timely raw materials and labour causes cost and time overrun of the projects and is a major source of risk of losing goodwill and business in the long run.

Measures taken to minimize above risk

For timely and adequate supply of raw materials, Purchase department of the Company has tied up with several dealers and suppliers of the raw materials. Proper follow up with suppliers, timely payments to them and updating themselves with the latest market trend, enables the Purchase department to make available sufficient and timely supply of raw materials to different sites of the project. Similarly, the Personnel department is constantly in touch with several contractors, sub-contractors ensuring timely and adequately supply of casual labours to the construction sites. After hiring these labours, the Company also ensures that proper care is being taken to make them comfortable and satisfied by way of providing several amenities like providing them with houses, making available pure and clean drinking water, proper school facilities of their children etc.

(viii) Client concentration

We rely on repeat business based on the strength of our client relationships and a major portion of our revenues come from existing key clients. As the size of a client increases, it limits our pricing flexibility, strengthens the clients' negotiation capability, and reduces the ability to govern the relationship for mutual advantage. Also, the business growth of these large clients, their own profitability and changes in their strategies has the potential to adversely impact our revenues and profitability and increase credit risk.

Measures taken to minimize above risk

We further refine our strategic client analysis processes to proactively assess the long-term direction of our key clients. This helps us to identify risks due to changes in clients' business and identify areas where we can proactively add value to improve their business.

At the same time, we actively seek new clients to reduce client concentration levels and enable growth.

(x) Contractual compliance

There are inherent risks involved in a contract, and not ascertaining our legal responsibilities under the applicable law of the contract would enhance our liabilities under the contract.

Measures taken to minimize above risk

Our team of professionals focus on evaluating the legal risks involved in a contract, ascertaining our legal responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved. Operational teams have been trained on compliance-related issues so that they can ensure adherence to all contractual commitments. The Management reviews this on a continuous basis and takes corrective action, as appropriate.

EXTERNAL RISKS

While internal risks are identified, assessed and suitable remedial measures are being taken by the Company to counter those risks; it is very difficult to quantify and assess external risks and to take remedial measures to counter risks arising from external risks. Further, external risks are common to all Companies across of industries.

Our Company has identified following external risks:

(i) Adverse impact of economic and political conditions

Global economic and political factors that are beyond our control, influence forecasts and directly affect performance. These factors include interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, terrorist threats and activities, worldwide military and domestic disturbances and conflicts, and other matters that influence consumer confidence, spending and tourism. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude. The taxation system within the country still remains complex. Changes in local taxes and levies can impact our performance adversely.

(ii) Terrorist attacks or acts of war may seriously harm our business

Terrorist attacks may cause damage or disruption to our company, our employees, our facilities and our customers, which could impact our results from operations. Any future terrorist attacks, the national and international responses to terrorist attacks, or other acts of war or hostility may cause greater uncertainty and cause our business to suffer in ways that we currently cannot predict.

(iii) We are subject to risks arising from interest rate fluctuations, which could adversely affect our business, financial conditions and results of operations

Changes in interest rates could significantly affect our financial condition and results of operations. Our loans are denominated in Indian Rupees and we are exposed to fluctuations in domestic interest rates.

(iv) Natural calamities could have a negative impact on the Indian economy and cause our business to suffer

India has experienced natural calamities such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy. Natural calamities like droughts, erratic progress of the monsoon in the country, prolonged spells of rainfall below normal levels or other natural calamities could have a negative impact on the Indian economy, adversely affecting our business and results of operations.