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NATIONAL SEEDS CORPORATION LIMITED

RISK MANAGEMENT POLICY

INTRODUCTION

Oxford Dictionary defines the term "**risk**" as a chance or possibility of danger, loss, injury or other adverse consequences

Risk management is attempting to identify and then manage threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

The Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the Corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary Guidelines, 2009

Risk Management

i). The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.

It has therefore become mandatory for Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimise their adverse impact on the organisation.


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Risk Strategy:

National Seeds Corporation Ltd., recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

The Company believes that the Risk cannot be eliminated. However, it can be:

- ☐ • Transferred to another party, who is willing to take risk, say by buying an insurance policy or entering into a forward contract;
- ☐ • Reduced, by having good internal controls;
- ☐ • Avoided, by not entering into risky businesses;
- ☐ • Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- ☐ • Shared, by following a middle path between retaining and transferring risk.

The NSC Limited is a Central Public Sector Enterprise under the Administrative Control of Ministry of Agriculture & Cooperation which is in the business of production, processing and marketing of quality seeds. It has 10 Regional Offices and 72 Area Offices spread across the length and breadth of the country in the service of the farmers.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, Competition, Business risk, Technology obsolescence, Investments, retention of talent and expansion of facilities. Business risk, inter-alia, further includes financial risk, climate risk, fidelity risk, legal risk. For managing risk more efficiently the company would need to identify the risks that it faces in trying to achieve the objectives of the Company. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the firm and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same.

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Risk Management Framework

Objectives must exist before management can identify potential events affecting their achievement. Enterprise risk management ensures that management has in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

The Objectives of the Company can be classified into Strategic:

- Organizational Growth.
- Comprehensive range of products.
- Sustenance and Growth of Strong relationships with dealers/customers.
- Expanding our presence in existing markets and penetrating new geographic markets to achieve last mile connectivity.
- Continuing to enhance our industry expertise.
- Enhance our capabilities through technology upgradation and introduction of newer and better varieties of product.

Operations:

- Consistent Revenue growth.
- Consistent profitability.
- High quality production.
- Further develop Culture of Innovation.
- Attract and retain quality technical manpower and augmenting their training.

Reporting:

- Maintain high standards of Corporate Governance and public disclosure.

Compliance:

- Ensure stricter adherence to policies, procedures and laws/ rules/ regulations/ standards.

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks. The entirety of enterprise risk management is monitored and modifications made as necessary.

Risk mitigation is an exercise aiming to reduce the loss or injury arising out of various risk exposures. NSC adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating steps proactively and help to achieve stated objectives.

The Company has constituted a Risk Assessment and Minimization Committee with functional heads and the Company Secretary as members. The Committee will submit its periodical report to the Board about the measures taken for mitigation of Risk in the organisation.

Risk Management and Risk Monitoring

In the management of Risk the probability of risk assumption is estimated with available data and information and appropriate risk treatments worked out in the following areas:

1. Production of seeds:

(A) Natural Risk :

- i) **Assessment of Risk :** Adverse Agro Climatic conditions.

Avoidance/Mitigation of Risk : Natural factors are beyond control. However, off season production to compensate shortfall can be arranged to some extent, if possible.

- ii) **Assessment of Risk :** Absence of Field inspection

Avoidance/Mitigation of Risk : Field inspection as per norms to ensure by putting sufficient technical staff.

- iii) **Assessment of Risk :** Non implementation of package of practices by farmers.

Avoidance/Mitigation of Risk : Advice can be given to the farmers for adopting improved package of practices at the time of allocation of production programme.

(B) : Management Risk :

- i) **Assessment of Risk :** Constraints of storage space.

Avoidance/Mitigation of Risk : Additional godowns/storage can be constructed/hired as per requirement.

- ii) **Assessment of Risk :** Deterioration of Raw Seed in storage.

Avoidance/Mitigation of Risk : Timely prophylactic measures to be adopted as per Quality Control norms.

- iii) **Assessment of Risk :** Tendering Raw seed by sourcing from Grain Market.

Avoidance/Mitigation of Risk : Sealing of raw seed at farmers field by State Seed Certification Agency.

- iv) **Assessment of Risk :** Inadequate availability of foundation seed as result of non-certification.

Avoidance/Mitigation of Risk : Arrangement of planting material from alternate sources to the extent of shortfall.

- v) **Assessment of Risk :** Non-Tendering of Raw seed by Growers due to higher market price of grain.
Fluctuation in the market prices on either side.

Avoidance/Mitigation of Risk : Though it is difficult to mitigate but Flexible/reasonable pricing policy and quick payment may reduce risk.

- vi) **Assessment of Risk :** Farmers reluctance to take risk of implementing programme of newer varieties.

Avoidance/Mitigation of Risk : Incentive may be allowed by Govt. of India for promotion of newer & performing varieties.

Imposition of restriction by State Governments.

- vii) **Assessment of Risk :**

- a) Restriction on use of planting material received from other state for production of certified seed.
- b) Restriction of use of CS-I as planting material for CS-II production in case of shortage of FS by certain SSCAs.
- c) Special incentive or cross subsidy by State Govt. to the farmers of State Seed Corporation (SSCs) from different schemes like RKVY, etc.

Avoidance/Mitigation of Risk :

a & b) Intervention of Govt. of India to overcome such restrictions.

- c) Review of GOI budget allocation/utilisation by State Govt. as per guidelines of scheme and Prohibiting such special incentive/cross subsidy.

Field Risk. →

- viii) **Assessment of Risk :** Lack of trained growers/farmers.

Avoidance/Mitigation of Risk : Training of growers/farmers to update the latest technology.

- ix) **Assessment of Risk :** Lack of faithful growers/farmers

Avoidance/Mitigation of Risk : Action on unfaithful growers/farmers by black listing and publicising such action among growers.

- x) **Assessment of Risk :**

Inadequate field staff for monitoring and field inspection. The field inspection per technical person per annum are as under :-

- a) 500 Ha. Per inspecting official for Open pollinated varieties
b) 50 Ha. Per inspecting official for Hybrids

Avoidance/Mitigation of Risk : Sufficient staffing for seed production based on field inspection norms of Certification Agency.

- xi) **Assessment of Risk :** Local Language Barrier of field staff.

Avoidance/Mitigation of Risk : To depute field staff knowing local language.

- xii) **Assessment of Risk :** Frequent transfers of field staff.

Avoidance/Mitigation of Risk : Limited transfers based on performance.

- xiii) **Assessment of Risk :** Random allocation of production programme (farmer wise)

Avoidance/Mitigation of Risk : Casual selection of farmers/growers to be avoided rather selection to be made based on experience, land holding, irrigation facility etc.

- xiv) **Assessment of Risk :** Non timely payments to growers/farmers .

Avoidance/Mitigation of Risk : Time schedule of payment vouchers to be prepared and Fund management to be seen by Finance division in consultation with RM.

- xv) **Assessment of Risk :** Mandatory testing of seed in STL and QCL .

Avoidance/Mitigation of Risk : In case of marginal variation in test results (near to standard), retesting/procurement decision on the basis of STL Testing.

- xvi) **Assessment of Risk :** Production Programme of Large No. of varieties.

Avoidance/Mitigation of Risk : Scrutiny & reduction of nos. of varieties based on the performance/acceptance, productivity, market potential & substantial quantity for sale.

- xvii) **Assessment of Risk :** Dissatisfied Growers/farmers/Organizers due to lack of inadequate account details.

Avoidance/Mitigation of Risk : Computerization.

2. Processing of seeds produced :

- i) **Planning and design Risk :** It may happen due to non availability of appropriate capability to design the project/component as it may not be possible to engage all type of expertise.

Assessment of Risk : This can be mitigated by assigning the work to expert agencies having experience of doing such projects and also assigning the task of inspection to ensure that the execution takes care of spirit of design appropriately.

Avoidance/Mitigation of Risk : This can be assessed in the beginning whether it is possible to undertake such work departmentally or not.

- ii) **Time and Cost overrun :** There may be risk of project running late due to various reasons leading to escalation in cost. This could be due to material not being available, local hindrance, natural hindrances etc.

Assessment of Risk : Each project is given start and end date under normal conditions. Project team identified will have regular meeting to review that the progress is satisfactory and if not.

Avoidance/Mitigation of Risk : Work out the reasons and submit monthly report which will be brought up by project incharge before functional head for guidance and decision making.

- iii) **Contractors/suppliers not fulfilling Mandatory obligations :** It may sometime happen that the contractor/supplier do not fulfil obligations which are mandatory.

Assessment of Risk : Regular monitoring of their work records to ensure that the obligations are being fulfilled and report to this effect be submitted to project In charge.

Avoidance/Mitigation of Risk : This can be done by inserting appropriate clause in the agreement and regular monitoring to ensure that the obligations are fulfilled timely and accurately.

- iv) **Non-availability of Material :** There may be risk of delay due to non availability of material.

Assessment of Risk : Regular assessment through meeting of project officers with contractors/suppliers and market information and

information on Govt. policies will throw light on non-availability of particular material.

Avoidance/Mitigation of Risk : Working out substitution with equal quality timely may avoid/mitigate/dilute the risk.

- v) **Risk of Non performance in dependence on one vendor :** There may be chance that one vendor is given order and he does not supply material timely.

Assessment of Risk : Periodically monitoring the progress of manufacturing.

Avoidance/Mitigation of Risk : Supply orders be bifurcated in more than one supplier and in case of one supplier failing, the other one could be depended.

- Keeping appropriate level of inventory in stock .

- vi) **Other Risk :** Project/supplier could be affected due to natural calamity, local rowdiness, demonstration etc.

Assessment of Risk : Regular watch by project staff and incharge of keep eye on the development.

Avoidance/Mitigation of Risk : Taking appropriate step/decision depending on the situation to mitigate, avoid/transfer/dilute the risk.

3. MARKETING OF SEEDS :

Assessment of Risk : Suitable crop/variety :

- (i) Seed producer has to plan production of seed at least three years ahead of the sale of the same. In some of the cases, despite good sale plans, as the producer shall get the assured production of seed, sometimes the demand as per the plan get failed due to various conditions.
- (ii) Government Policy : Sometimes Government does support a particular variety or a crop and also sometimes ban some of the varieties.
- (iii) Weather conditions : Due to fluctuating weather conditions, lack of rains, excess of rains or delay in monsoon, a particular crop/variety can be rejected by the farmers.

- (iv) **Farmers' Acceptance :** In some of the States e.g. Punjab and Haryana where farmers are techno savvy and they go for only to new and research varieties. Farmers also go for those crops which gave some higher return. Therefore, identification of crop and varieties should be dealt very carefully.

Avoidance/Mitigation of Risk :

- (i) Proper market survey is required for identification for crop/varieties.
- (ii) Extensive field activities like field demonstration are required.

Assessment of Risk : Timely Deliveries :

Due to sowing window of many crops is short and any delay in packing certification and processing lead to delay in supply of seeds.

Avoidance/Mitigation of Risk :

Proper planning for processing, packing and certification of seed and good logistic support is required.

Assessment of Risk : Subsidy :

Some of State Govts. contribute their State subsidy kitty from different Schemes to the subsidy provided by the Govt. of India and sometimes Government also withdraws the subsidy suddenly without prior intimation which leads to either squeeze the margin or losses to the Corporation.

Assessment of Risk : Safe storage :

Seed is very sensitive item which carries a living material in it. Proper handling and logistic plays an important role for keeping the health of seed in a good condition. In such cases seed has to be stored at standard storage facility for the safe storage of seed. Any increase in temperature/moisture will harm the health of the seed.

Assessment of Risk : Payment :

- i) In NSC there is no provision for supply of seed on credit to the private parties and the seed is sold on cash and carry basis.
- ii) There is a provision of credit sale to the Govt. Deptts.
 - a) 80% within 30 days; and
 - b) Balance 20% payment within next 30 days.

- iii) In case of some of the State Govts. The payment realization is delayed which eats up the margin of the Corporation.

Avoidance/Mitigation of Risk :

- i) Some advance payment from the State Govts. before the supply or commitment for payment by the State Govts.
- ii) In case of State Governments with poor payment scenario we may supply the seed to the State Governments through a dealer/distributor who will make the payment to NSC on cash and carry basis.

Assessment of Risk : Quality of seed :

Dual check at the destination by the State Government. In some of the States, they very specifically mention in the tender that they will only make the payments to NSC once they draw the sample and get it checked at the destination. Due to the influence of the competition, the State Government officials do not invite any NSC officials for joint sampling and test result get failed in their laboratories which is not so equipped and well maintained. It has also been observed that there is a variation in the test result of the seed from the same lot from two different laboratories by a wider gap.

Avoidance/Mitigation of Risk :

- i) The involvement of NSC officers in joint sampling.
- ii) Duly well equipped lab, accredited laboratory will be insisted upon for such tests.

Assessment of Risk : Pricing :

- i) Pricing is determined by following factors :-
 - a) Mandi Price
 - b) Govt. policy for supply of seed
 - c) Export/Import of grain
 - d) Subsidy policy of Govt.
- ii) As there is a gap of almost 4-5 months between the period of fixation of procurement price and sale price and many a times, it has been observed that at the time of procurement, the Mandi rates have been artificially raised by few traders and as NSC is

committed to give the procurement price based on the said policy has to pay higher price to the growers by the time the seed is ready to supply in the market, the prices of the seed get normalized and the same price of seed is sometime very near to the procurement price due to which Corporation has to sell the seed at a very thin/no margin.

Avoidance/Mitigation of Risk :

- i) NSC quality, packaging and branding will be improved so as to stand alone for product and not "me too" type.
- ii) New production %age development.
- iii) Improved mechanism of procurement price fixation will be developed so that NSC can avoid playing the hand of few commodity traders.
- iv) PP of NSC seed will be fixed also based on PP of private seed industries.
- v) Issue of parting profit margin to producers in case of few crops, where NSC gets good margin will be explored.

Assessment of Risk : Local Production Local Sale :

Some of the States now insisting for production/certification from their own State. It is sometimes not possible to produce the seed in the same State due to various factors i.e. identification of growers, non-functioning of seed certification and other climatic conditions.

Avoidance/Mitigation of Risk :

Proper planning for seed production will be done.

4. FINANCIAL RISK

i) Assessment of Risk : Cash Flow Mismatch

This risk will be assessed by preparing monthly cash flow including the cash flow of regions and thereafter assessing the situation on day to day basis. The assessment on daily basis will be done by Functional Head and status placed before the Director (Fin.) for his information/guidance.

Avoidance/Mitigation of Risk :

The Company will take the "CC" limits from banks and also keep the backup of sanctioned limit for short term from other bankers. Every time the margin of at least 25% will be kept in the form of un-utilized sanctioned limit.

ii) **Assessment of Risk : Credit Risk :**

It will be seen that amount from debtors is realized within the normal credit period. In case the delay has taken place the reasons for the same will be assessed through concerned functionaries.

Avoidance/Mitigation of Risk :

An alert will be sent to Director (Com.) and concerned functionaries and a special report will be prepared for delayed recovery/overdue outstanding.

iii) **Assessment of Risk : Risk regarding failure to comply with specific statutory requirement :**

Annual/monthly schedule of activities will be prepared and monitored at the level of Functional Head.

Avoidance/Mitigation of Risk :

The above risk will be avoided by preparing a due date chart for depositing taxes and other statutory payments and filing of returns. The monthly compliance report will be submitted to Functional Head and quarterly compliance report to the Board of Directors or committee formed by the Board in the respect.

5. Legal Risk

Legal risk is the risk in which the Company is exposed to legal action. As the Company is governed by various laws and the Company has to do its business within four walls of law, where the Company is exposed to legal risk exposure, NSC has an experienced team of professionals, advisors who focus on evaluating the risks involved in a contract, ascertaining our responsibilities under the applicable law of the contract, restricting our liabilities under the contract, and covering the risks involved so that they can ensure adherence

to all contractual commitments. Management places and encourages its employees to place full reliance on professional guidance and opinion and discuss impact of all laws and regulations to ensure company's total compliance. Advisories and suggestions from professional agencies and industry bodies, chambers of commerce etc. are carefully studied and acted upon where relevant. The Company has established a monitoring system in the organisation and Secretary of the Company being the focal point will get the quarterly compliance reports from functional heads.

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14. Human resource management

"The vision of the Company is to achieve Organisational excellence through innovation"

NSC Ltd., Human Resources Development (HRD) Department will add value to all its Units by ensuring that the right person is assigned to the right job and that they grow and contribute towards organisational excellence. Our growth has been driven by our ability to attract top quality talent and effectively engage them in right jobs.

Risk in matters of human resources are sought to be minimised and contained by following a policy of providing equal opportunity to every employee, inculcate in them a sense of belonging and commitment and also effectively train them in spheres other than their own specialisation. Employees are encouraged to make suggestions on innovations, cost saving procedures, free exchange of other positive ideas relating to business of the Corporation. It is believed that a satisfied and committed employee will give of his best and create an atmosphere that cannot be conducive to risk exposure.

Employee-compensation is always subjected to fair appraisal systems with the participation of the employee and is consistent with the instructions of Department of Public Enterprises and takes into account welfare measures for the employee and his family.

We seek to provide an environment that rewards entrepreneurial initiative and performance through the scheme of Performance Related Pay.

15. Culture and values.

The Company has various ROs/AOs located in different geographical locations and people belonging to different culture and values are employed in those divisions. Managing risk consistently among multi-cultural workforce is very critical. In order to address the needs of our employees following core values have been identified:-

- Pursuit of Excellence
- Industrial Promotion
- Workers' Welfare
- Productivity
- Safety
- Industrial Relations
- Environment Improvement

These are guiding parameters for all organization-wide initiatives. Over the years, company has consistently followed the practice of adhering to certain cultures and values in internal and external management and every employee is made aware of such practices and the logic behind them. It is the company's belief that every employee is attuned to follow fair practices and uphold its fair name in every field they are involved.

Disclaimer :

The Management cautions readers that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

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