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POLICY ON REMUNERATION OF DIRECTORS, KEY MANAGERIAL PERSONNEL AND SENIOR EMPLOYEES

BACKGROUND

Khaitan Electricals Limited (hereinafter referred as the 'Company') practices a corporate culture that is based on the tenets of trusteeship, empowerment, accountability, control and ethical practices with transparency at its core for creation of maximum value for the stakeholders.

BRIEF OVERVIEW UNDER COMPANIES ACT 2013

{Section 178 and Companies [Meetings of Board and its Powers] Rules 2014}

- *Constitution of the Nomination and Remuneration Committee consisting of three or more non-executive directors out of which not less than one-half shall be independent directors*

- *The Nomination and Remuneration Committee shall identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall carry out evaluation of every director's performance.*

- *The Nomination and Remuneration Committee shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and senior management personnel i.e. employees at one level below the Board including functional heads.*

- *The Nomination and Remuneration Committee shall, while formulating the policy ensure that:—*

    the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the company successfully;

    relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and

    remuneration to directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals.

- *Such policy shall be disclosed in the Board's report.*

BRIEF OVERVIEW OF THE REVISED CLAUSE 49 OF LISTING AGREEMENT

IV. Nomination and Remuneration Committee

A. The company shall set up a Nomination and Remuneration committee which shall comprise at least three directors, all of whom shall be non-executive directors and at least half shall be independent. Chairman of the committee shall be an independent director.

B. The role of the committee shall, INTER-ALIA, include the following:

Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration of the directors, key managerial personnel and other employees;

Formulation of criteria for evaluation of Independent Directors and the Board;

Devising a policy on Board diversity;

Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal. The company shall disclose the remuneration policy and the evaluation criteria in its Annual Report.

PRESENT POSITION OF DIRECTORS and KMP OF THE COMPANY

- *The Company has constituted a Nomination and Remuneration Committee of the Board of Directors (Board).*

- *At present there are total eight directors on the Board of which five (5) are Non-Executive and Independent, one related to an Executive Director, and the remaining two (2) are Executive Directors. The Executive Chairman and Managing Director (CMD) and Deputy Managing Director draw remuneration from the Company.*

- *Key Managerial Personnel (KMP) consists of Executive Chairman and Managing Director and also CEO, Deputy Managing Director, Chief Financial Officer (CFO) and Company Secretary who are employees.*

TERMS OF REFERENCE OF NOMINATION AND REMUNERATION COMMITTEE

- *Formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees.*

- *Act as Selection and Compensation Committee to evaluate suitability of candidates for various senior positions and determine appropriate compensation package for them. Selection of related persons whether or not holding place of profit in the Company to be carried out strictly on merit and where applicable, be subjected to review by the Audit Committee of and/or the Board with approval at each stage being obtained by disinterested Independent Directors only.*

- *Identify persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal.*

- *Removal should be strictly in terms of the applicable law/s and in compliance of principles of natural justice.*

- *Formulation of criteria for evaluation of Independent Directors and the Board.*

- *Devising a policy on the Board diversity.*

- *Recommend to the Board, remuneration including salary, perquisite and commission to be paid to the Company's Executive Directors on an annual basis or as may be permissible by laws applicable.*

- *Recommend to the Board, the Sitting Fees payable for attending the meetings of the Board/Committee thereof, and, any other benefits such as Commission, if any, payable to the Non- Executive Directors.*

- *Setting the overall Remuneration Policy and other terms of employment of Directors, wherever required.*

CRITERIA FOR DETERMINING THE FOLLOWING:-

Qualifications for appointment of Directors (including Independent Directors):

- *Persons of eminence, standing and knowledge with significant achievements in business, professions and/or public service.*
- *Their financial or business literacy/skills.*
- *Their consumer durable / consumer Goods / FMCG industry experience.*
- *Appropriate other qualification/experience to meet the objectives of the Company.*
- *As per the applicable provisions of Companies Act 2013, Rules made there under and Clause 49 of Listing Agreement.*

The Nomination and Remuneration Committee shall have discretion to consider and fix any other criteria or norms for selection of the most suitable candidate/s.

Positive attributes of Directors (including Independent Directors):

- *Directors are to demonstrate integrity, credibility, trustworthiness, ability to handle conflict constructively, and the willingness to address issues proactively.*
- *Actively update their knowledge and skills with the latest developments in the consumer durable / consumer Goods / FMCG industry, market conditions and applicable legal provisions.*
- *Willingness to devote sufficient time and attention to the Company's business and discharge their responsibilities*
- *To assist in bringing independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct.*
- *Ability to develop a good working relationship with other Board members and contribute to the Board's working relationship with the senior management of the Company.*
- *To act within their authority, assist in protecting the legitimate interests of the Company, its shareholders and employees*
- *Independent Directors to meet the requirements of the Companies Act, 2013 read with the Rules made there under and Clause 49 of the Listing Agreement as amended from time to time*

Criteria for appointment of KMP/Senior Management:

- *To possess the required qualifications, experience, skills and expertise to effectively discharge their duties and responsibilities.*
- *To practice and encourage professionalism and transparent working environment.*
- *To build teams and carry the team members along for achieving the goals/objectives and corporate mission.*
- *To adhere strictly to code of conduct*

POLICY RELATING TO REMUNERATION OF DIRECTORS, KMP and SENIOR MANAGEMENT PERSONNEL:

- *To ensure that the level and components of remuneration is reasonable and sufficient to attract, retain and motivate Directors, KMP and other employees of the quality required to run the Company successfully.*
- *No director / KMP/ other employee is involved in deciding his or her own remuneration.*
- *The trend prevalent in the similar industry, nature and size of business is kept in view and given due weightage to arrive at a competitive quantum of remuneration.*
- *It is to be ensured that relationship of remuneration to the performance is clear and meets appropriate performance benchmarks which are unambiguously laid down and communicated.*
- *Improved performance should be rewarded by increase in remuneration and suitable authority for value addition in future.*
- *Remuneration packages should strike a balance between fixed and incentive pay, where applicable, reflecting short and long term performance objectives appropriate to the Company's working and goals.*
- *Following criteria are also to be considered:*
  - *Responsibilities and duties;*
  - *Time and efforts devoted;*
  - *Value addition;*
  - *Profitability of the Company and growth of its business;*
  - *Analyzing each and every position and skills for fixing the remuneration yardstick;*

- *Standards for certain functions where there is a scarcity of qualified resources.*
- *Ensuring tax efficient remuneration structures.*
- *Ensuring that remuneration structure is simple and that the cost to the Company (CTC) is not shown inflated and the effective take home remuneration is not low.*
- *Other criteria as may be applicable.*

- *Consistent application of remuneration parameters across the organisation.*

- *Provisions of law with regard making payment of remuneration, as may be applicable, are complied.*

- *Whenever, there is any deviation from the Policy, the justification /reasons should also be indicated / disclosed adequately.*

REVIEW

The policy shall be reviewed by the Nomination and Remuneration Committee and the Board, from time to time as may be necessary.

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RISK MANAGEMENT POLICY

BACKGROUND

This document lays down the framework of Risk Management at Khaitan Electricals Limited (hereinafter referred to as the **'Company' or 'KEL***') and defines the policy for the same. This document shall be under the authority of the Board of Directors of the Company. It seeks to identify risks inherent in any business operations of the Company and provides guidelines to define, measure, report, control and mitigate the identified risks.*

OBJECTIVE

The objective of Risk Management at Khaitan Electricals Limited is to create and protect shareholder value by minimizing threats or losses, and identifying and maximizing opportunities. An enterprise-wide risk management framework is applied so that effective management of risks is an integral part of every employee's job.

Strategic Objectives

1. *Providing a framework that enables future activities to take place in a consistent and controlled manner*
2. *Improving decision making, planning and prioritization by comprehensive and structured understanding of business activities, volatility and opportunities/ threats*
3. *Contributing towards more efficient use/ allocation of the resources within the organization*
4. *Protecting and enhancing assets and company image*
5. *Reducing volatility in various areas of the business*
6. *Developing and supporting people and knowledge base of the organization.*
7. *Optimizing operational efficiency*

REGULATORY

Risk Management Policy is framed as per the following regulatory requirements:

A. COMPANIES ACT, 2013

1. *Provisions of the Section 134(3)*

   There shall be attached to financial statements laid before a company in general meeting, a report by its Board of Directors, which shall include—

   (n) a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company.

2. *Section 177(4) stipulates:*

   Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

   (vii) evaluation of internal financial controls and risk management systems.

3. *SCHEDULE IV*
   [Section 149(8)]

   CODE FOR INDEPENDENT DIRECTORS

II. Role and functions:

The independent directors shall:
*(1) help in bringing an independent judgment to bear on the Board's deliberations especially on issues of strategy, performance, **risk management,** resources, key appointments and standards of conduct;*

*(4) satisfy themselves on the integrity of financial information and that financial controls and **the systems of risk management** are robust and defensible;*

B. Clause 49

Key functions of the Board

The board should fulfil certain key functions, including:

*a. Reviewing and guiding corporate strategy, major plans of action, **risk policy,** annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestments.*

*g. Ensuring the integrity of the company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, **systems for risk management,** financial and operational control, and compliance with the law and relevant standards.*

D. Role of Risk and Audit Committee
The role of the risk and Audit Committee shall include the following:

11. Evaluation of internal financial controls and risk management systems;

VI. Risk Management

A. The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures.

B. The Board shall be responsible for framing, implementing and monitoring the risk Management plan for the company.

C. The Board shall define the roles and responsibilities of the Risk and Audit Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit.

Information to be placed before Board of Directors

14. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

Khaitan Electricals Limited being a listed company is required to adhere to the regulations made both by the Companies Act, 2013 and Clause 49 of the Listing Agreement governed by the Securities and Exchange Board of India (SEBI). Where any stipulation is common between the regulations, more stringent of the two shall be complied with.

APPLICABILITY

This Policy shall come into force with effect from 1st October, 2014.

DEFINITIONS

"Risk and Audit Committee or Committee" *means Committee of Board of Directors of the Company constituted under the provisions of Companies Act, 2013 and Listing agreement.*

"Board of Directors" or "Board" *in relation to a Company, means the collective body of Directors of the Company. (Section 2(10) of the Companies Act, 2013)*

"Policy" *means Risk Management Policy.*

POLICY

Before proceeding to the policy attention is drawn to the roles that the Board and Risk and Audit Committee are required to play under the above regulations governing Risk Management:

The Board's role under both the regulations is to ensure framing, implementing and monitoring risk management plan, having in place systems for risk management as part of internal controls with duty being cast upon Independent Directors to bring unbiased angle to the Board's deliberations on making risk management systems more robust.

Risk and Audit Committee's role is evaluation of the risk management systems.

This policy shall complement the other policies of KEL in place e.g. Related Party Transactions Policy, to ensure that the risk if any arising out of Related Party Transactions are effectively mitigated.

Broad Principles

The Board has to review the business plan at regular intervals and develop the Risk Management Strategy which shall encompass laying down guiding principles on proactive planning for identifying, analyzing and mitigating all the material risks, both external and internal viz. Environmental, Business, Operational, Financial and others.Communication of Risk Management Strategy to various levels of management for effective implementation is essential.

Risk Identification is obligatory on all vertical and functional heads who with the inputs from their team members are required to report the material risks to the Chairman and Managing Director (CMD) along with their considered views and recommendations for risk mitigation.

Analysis of all the risks thus identified shall be carried out by CMD through participation of the vertical/functional heads and a preliminary report thus finalized shall be placed before the Riskand Audit Committee.

The following steps to be taken:
Risk identification: *To identify organization's exposure to uncertainty. Risk may be classified in the following:*

i. *Strategic*
ii. *Operational*
iii. *Financial*
iv. *Hazard*

Risk Description: *To display the identified risks in a structured format*

Name of Risk	
Scope of Risk	*Qualitative description of events with size, type, number etc.*
Nature of Risk	*Strategic, Operational, Financial, Hazard*
Quantification of Risk	*Significance and Probability*
Risk Tolerance/ Appetite	*Loss Potential and Financial Impact of Risk*
Risk Treatment and Control Mechanism	*a) Primary Means b) Level of Confidence c) Monitoring and Review*
Potential Action for Improvement	*Recommendations to Reduce Risk*
Strategy and Policy Development	*Identification of Function Responsible to develop Strategy and Policy*

Risk Evaluation:

After risk analysis, comparison of estimated risks against organization risk criteria is required. It is to be used to make decisions about the significance of risks and whether each specific risk to be accepted or treated.

Risk Estimation:
Can be quantitative, semi quantitative or qualitative in terms of probability of occurrence and possible consequences.

Impact level on performance/profit – Both Threats and Opportunities

Reporting

1. *Internal Reporting*

   a) *Risk and Audit Committee*
   b) *Board of Directors*
   c) *Vertical Heads*
   d) *Individuals*

2. *External Reporting*

   To communicate to the stakeholders on regular basis as part of Corporate Governance

Development of Action Plan

The Board has constituted a **Risk and Audit Committee** *consisting of three (3) Independent Directors, and defined the Committee's role and responsibility. The Committee shall not only assist in implementation of the Risk Management Plan of the Board but also monitor its implementation and review. The members of the Risk and Audit Committee shall discharge the role of "Think Tank", ideate and bounce off their collective suggestions to the Board for periodic updating of the Risk Management Plan to ensure that the same is in sync with changing macro and micro factors having bearing on all material aspects of the businesses Khaitan Electricals Limited is engaged in or shall undertake.*

Risk and Audit Committee shall critically examine the report of CMD and each identified risk shall be assessed for its likely impact vis a vis the resources at the Company's disposal.

Guidelines to deal with the risks

Business Plan including Capital Expenditure and Fund Flow Statement for each segment together with SWOT analysis, data on Production Planning, Materials Management, Sales and Distribution, Delivery Schedules, Assets, Accounts Receivables and Payables as well as Regulatory Regime applicable shall be reviewed in the light of the material risks identified. Through deliberations of the Committee a comprehensive plan of action to *deal with the risks shall be developed and guidelines flowing from such plan shall be communicated to the employees concerned for mitigation of the risks.*

Board Approval

The Action Plan and guidelines decided by the Risk and Audit Committee shall be approved by the Board before communication to the personnel for implementation.

The Board shall approve the Risk Management (including Risk Treatment) strategy, control structure and policy guidelines and delegate authority and accountability for risk management to the Company's executive team.

The guidelines shall include prescription on:

Risk Treatment

Treatment of Risk through the process of selecting and implementing measures to mitigate risks. To prioritize risk control actions in terms of their potential to benefit the organization. Risk treatment includes risk control/ mitigation and extends to **risk avoidance, risk transfer (insurance), risk financing, risk absorption** *etc. for*

a) Effective and efficient operations
b) Effective Internal Controls
c) Compliance with laws and regulations

Risk Treatment shall be applied at all levels through carefully selected validations at each stage to ensure smooth achievement of the objective.

Risk Registers

Risk Registers shall be maintained showing the risks identified, treatment prescribed, persons responsible for applying treatment, status after the treatment etc. Risk Managers and Risk Officers to be identified for proper maintenance of the Risk Registers which will facilitate reporting of the effectiveness of the risk treatment to the Risk and Audit Committee, and the Board.

Enterprise Risk Planning (ERP package) shall play a key role in timely availability of all data/reports required for the Committee to develop the Action Plan as stated above.

The Board shall have the discretion to deal with certain risks (may be called Key or Highly Sensitive Risks) in the manner it may deem fit. Mitigation of such Highly Sensitive/Key risks and effectiveness of their mitigation measures and review of the strategy may be directly discussed by the Board members with Audit Committee.

ROLE OF RISK and AUDIT COMMITTEE

The following shall serve as the Role and Responsibility of the Audit Committee authorized to evaluate the effectiveness of the Risk Management Framework:

Review of the strategy for implementing risk management policy
To examine the organization structure relating to Risk management

Evaluate the efficacy of Risk Management Systems – Recording and Reporting

To review all hedging strategies/risk treatment methodologies vis a vis compliance with the Risk Management Policy and relevant regulatory guidelines

To define internal control measures to facilitate a smooth functioning of the risk management systems

Ensure periodic review of operations and contingency plans and reporting to Board in order to counter possibilities of adverse factors having a bearing on the risk management systems.

Integration of Risk Management Strategy

KEL's risk management strategy is to be integrated with the overall business strategies of the organization and its mission statement to ensure that its risk management capabilities aide in establishing competitive advantage and allow management to develop reasonable assurance regarding the achievement of the Company's objectives.

Penalties

*The penalties are prescribed under the Companies Act, 2013 (**the Act**) under various sections which stipulate having a Risk Management Framework in place and its disclosure.*

Section 134 (*8*) (dealing with disclosure by way of attachment to the Board Report): If a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

*There are other provisions of the Act as well as SEBI Act which stipulate stiff penalties. Therefore, this Policy prescribes that violation of the provisions applicable to Risk Management Framework is something the Company cannot afford to **risk.***

REVIEW

This policy shall evolve by review by the Risk and Audit Committee and the Board from time to time as may be necessary.

This Policy will be communicated to all vertical/functional heads and other concerned persons of the Company.