RISK MANAGEMENT REPORT

I. Commentary

In continuation of the practice of keeping the Board of Directors informed about the potential risks of running our business and the Company's processes for risk mitigation and control, in the following paragraphs, we attempt to provide the risks, that we encounter. This list is not exhaustive. The Management continues to take effective steps to mitigate such risks by devising an elaborate business strategy to counter and deal with the components of risks mentioned. However, given that we operate in the ever-changing technology space, several factors beyond our control continue to impact our business and profitability. The notes given in italics denote the risk mitigation measures undertaken by the Management.

II. Perceived Risks and Mitigation thereof

The risks perceived by the Management have been broadly categorised as follows:

II.A. Commercial / Market risks
II.B. Operational risks
II.C. Risks pertaining to resources such as Manpower, Systems, etc.
II.D. Financial risks
II.E. Other risks

II.A. ***Commercial / Market risks***

II.A(i) Charter hire fluctuations –

Charter hire for our vessels may fluctuate from period to period, due to a number of factors, including competition, decline in global charter rates, fluctuating oil demand and weakening in supply-demand balance of container vessels.

To mitigate this risk, we adopt a safe approach and neither take a too bullish nor too bearish view of the market. Accordingly, we fix our vessels on charter hire for reasonable periods ranging from six months to one year which is renewable at our option. Also, we periodically interact with experts and analysts in the trade and closely monitor the market. In addition to the above, we try and maintain a fine balance between chartering out vessels and operating vessels ourselves. We will also charter in vessels, when required and viewing the market conditions and tonnage tax laws. The above strategy safeguards and insulates us from risk of charter hire fluctuations to a great extent.

II.A(ii) Freight margins for our services may fluctuate –

The gross freight margins for our services may fluctuate from period to period, due to a number of factors, including service mix, competition, pricing, lack of capacity, global decline in freight rates, lack of acceptance of new services and port congestion.
To offset decreases, we intend to rely primarily on obtaining cost reductions and corresponding margin improvements in the implementation of existing services and on introducing new services that provide better solutions to the clients and render stability in operations. The Accounts Department prepares vessel / voyage wise profitability and costing whereby the profit per vessel and voyage can be monitored.

II.A(iii) Increased focus on a single segment –

Our business activities can be broadly divided into charter hire, freight and domestic shipping segments. Increased focus on a single segment may jeopardise future revenue growth. If we are unable to anticipate downfalls in any particular segment and the market / environment or we are unable to take counter productive measures in time, such changes may continue to affect our revenues and profitability.
To mitigate such risks, we try to periodically evaluate our business mix. Based on our analysis, we divest or phase out or reorganise segments affecting profitability adversely. In the past, we have carried out such divestments and reorganisations successfully. The business strategy whereby we give some ships on charter and run some on service helps in risk mitigation as charter hire ensures a minimum regular cash flow.

II.A(iv) Over dependence on a single trade route / service –

Over dependence on a single trade route or service may adversely impact our revenues. There are certain inherent risks in excessive concentration on any particular trade route / service. These include unexpected changes in demand, lack of capacity and congestion at ports.
To mitigate such risks, we try to spread the range of our services and continue to evaluate newer services and trade routes and analyse emerging business opportunities. The Marketing Department has a team of experts to identify new lines of business. We are also constantly studying the business landscape and changes therein which will impact our trade.

II.A(v) Competition –

If we are unable to compete with existing or new competitors, our resulting loss of competitive position could result in rate reductions, fewer clients, reduced

margins and loss of market share. The markets for our services are highly competitive and we expect the competition to increase in future. Our competitors – both present and future – may have significantly greater financial, technical and marketing resources than we do. These competitors may be in a position to respond, more rapidly, to changes in customers' requirements. They may also be in a position to devote greater resources to the promotion of their services. Our failure to compete successfully against current or future competitors could seriously harm our financial and business condition and results of our operations.
To enable us to maintain our market share and margins, we are one of the few players offering multimodal solutions to our customers. Our competition is fragmented and few of our competitors offer the same breadth of services that we offer. This will ensure that our margins are protected and that the customers are given a one stop solution for a wide range of services. Also, in appropriate situations, we make use of our group strengths to counter competition since we have a number of sister companies within the group which offer various kinds and combinations of services relating to movement of goods on different legs both in and outside India. We are also having a continuous cost monitoring mechanism whereby the cost of operations is monitored vesselwise. This facilitates identification of the cost drivers and their behaviour. With this, the cost can be managed and controlled effectively resulting in improved margins over a period of time. We also have a budgetary control mechanism in order to monitor the indirect expenses effectively.

II.B. ***Operational risks***

II.B(i) Vessel related risks –

The vessels owned by the Company, when plying in water, are subject to a number of risks including need for emergency repairs, damage to machinery and risk arising out of war or war like situations. There is consequential loss to the Company arising out of such risks. Also, there is a risk to the cargo, officers on board and other operational risks arising out of the course of business.
Though the above risks are not entirely unavoidable, to minimise the losses arising out of such risks, the Company takes adequate insurance cover. This cover is reviewed from time to time to ensure its suitability to new conditions. Various policies are taken such as:

- *Hull & Machinery Insurance which protects the Company in case of claims, repair expenses, damage to machinery, risk arising out of war or war like situations and consequential losses arising out of plying of the vessels.*
- *P& I cover which protects the vessels, cargo, officers against the third party claims and other commercial causes arising in the course of business.*
- *War risk Insurance which protects the Company from loss arising out of war or war like situations and consequential loss of revenue and additional expenses.*

- *We comply with ISPS Code for security and protection against terrorism, etc.*
- *Since there is no consequential loss policy available at reasonable rates, the same is not covered.*

II.B(ii) Environmental risks –

Vessels plying on sea have an impact on marine life and property and the environment in general. Sea route being a natural mode of transport, environmental problems are fewer compared to other modes of transport. However, there is a need to ensure there is no negative effect on marine life and property due to the vessels plying.

To mitigate this risk, the Company takes adequate steps to comply with the Water (Prevention and Control of Pollution) Laws. Also, it has systems in place to comply with Merchant Shipping Laws, International Maritime Organisation Regulations, Safety of Life at Sea Conventions, Marine Oil Pollution (MARPOL) Regulations, etc. Additionally, all its vessels are drydocked at least once every 2.5 years as mandated by the Maritime Laws. We comply with the ISM Code which takes care of safety of life at sea and environmental risks.

II.C. ***Risks pertaining to resources such as Manpower, Systems, etc.***

II.C(i) Loss of Critical Document, Data or Software –

This risk deals with the inability to reproduce via file restoration a critical or vital document, database or application.

To overcome this risk, we take backups on multiple media and test the same on periodical basis so that good backups exist to protect against such an occurrence. Backups are also kept off-site.

II.C(ii) Environmental risks pertaining to Information systems –

This risk is the impact of temporary failures, both planned and unplanned, of air conditioning and/or power. These failures could also result from construction or remodeling in the area or building where the Company carries on its business. Such instances are very real and although they are often of short duration, they temporarily obstruct the ability of the Company to provide services.

To handle situations of these kind, we are in the process of shifting our critical business applications to a Data Centre which is much more equipped with the required infrastructure facilities and specialises in these services.

II.C(iii) Single Point of Failure –

This risk is associated with key hardware dependency with a particular piece of equipment supporting a key function.

Such a risk is best countered by the presence of redundant hardware and strong service contracts, both of which already exist in the Company. We are also in the process of shifting critical business applications to a Data Centre which is much more equipped with redundant hardware at each level. Disaster Management plans and business continuity plans are being made operational for the IT assets of the Company.

II.C(iv)Clear text transmission of critical data –

Any network data may be intercepted, altered or forged. There needs to be appropriate encryption steps taken to protect critical data.

Such risks are being handled through a Virtual Private Network using PPTP and MD5 encryption feature of .NET Technology.

II.C(v)Spoofing –

This risk deals with the act of forging a machine or individual's identity, or using other techniques to attempt illegal access to a system.

This risk is being handled through the Firewall implemented in our offices.

II.C(vi)Key person dependency in Information Systems Department –

This risk addresses management or critical skills loss. Reliance on one person to maintain a key function, such as networks, computer facilities, etc. can severely compromise the day-to-day operations if a problem occurs.

To mitigate such risks, we identify the critical functions and maintain the necessary support structure with backup personnel for each critical skill / function.

II.C(vii)Shifting of trained employees to Competitors –

A number of companies have shown interest in the Indian shipping sector and are commencing their services in territories where our Company offers similar services. We, therefore, face a threat of movement of trained employees to such companies which could have a significant impact on our operations.

To mitigate such risks, we have a Manpower Planning system in place so long as we remain within the predictable limits of attrition in which case the attrition can be planned with minimum disruption to our services. We have also devised elaborate strategies to make the Company a desirable place to work in.

II.C(viii)People –

Our business and expansion strategies may suffer if we are not able to hire and retain sufficient qualified personnel or if we lose our key personnel since competition for highly skilled personnel is intense. Our future success largely depends upon the continued services of our key personnel. Also, our shipping staff, being responsible for the safety and maintenance of our most valuable assets, i.e., vessels, are of utmost importance to the Company.

We believe that employees will drive the business growth in future. Keeping this in mind, we are making sincere efforts to attract, train and retain skilled manpower. Also, our payment structure for staff on board is in line with international practices which helps in retaining technically skilled manpower for longer durations.

II.D. ***<u>Financial risks</u>***

II.D(i) Maintenance of Cash flows –

Considering the fact that the shipping industry is highly capital intensive in nature, there are a number of urgent requirement for funds like ship repair, bunker, cash to master, etc. Therefore, it is prima facie important to maintain and manage cash flows to meet these requirements and maintain sufficient liquidity. At the same time, excess cash balances need to be deployed at appropriate time to yield satisfactory returns on capital employed. Lack of effective Treasury Management may lead to a liquidity crunch during emergent situations or lower returns on capital employed.

To mitigate such risks, we follow a very conservative treasury management policy. While deploying the surplus cash balance, if any, priority is given to safety over returns. The Company does not deploy its cash in high risk – high return avenues. At appropriate junctures, we utilise the cash balance for expansion of business or acquisition of businesses. Also, we take a close view and maintain sufficient reserves at all times, thereby striking a fine balance between liquidity and returns on capital employed.

II.D(ii) Additional financial requirements –

Debt exposure cannot be completely avoided in case of companies in the shipping industry. Exposure to debt implies a fixed commitment towards principal and interest. Again, the rate of interest is market driven and depends on the foreign exchange inflow and outflow, besides other factors. While the Company continues to take actions to minimise the working capital gap, there can be no assurance that the Company will generate sufficient revenues to fund its future operations and growth strategies. We may need to obtain additional financing in future. Also, there is no assurance that this additional financing will be available when needed or, if available, may be on terms favourable to us. In the event such needed financing is not obtained, our operations may be materially and adversely affected and we could be forced to cease or substantially reduce operations. Any such additional financing may also be subject to interest rate fluctuations, which could affect us adversely. Any additional equity financing may be dilutive to shareholders and debt financings, if available, may involve restrictive covenants.

We follow a very conservative policy with regard to our financing. We have consciously reduced our debt in the past. While making acquisitions, we *endeavour to use our reserves to the maximum. Also, we have worked out a long term strategy which is reviewed periodically and endeavour to follow a conservative fund raising philosophy. While going in for additional financing, care is taken to ensure that we do not over-stretch ourselves beyond a comfortable debt-equity ratio.*

II.E. ***<u>Other risks</u>***

II.E(i) Economic and political risks –

Our business is subject to economic, political and other risks associated with our operations. Accordingly, our future results could be affected by a variety of factors, including:

- Changes in foreign exchange currency rates;
- Changes in the world economy and political conditions with resultant changes in demand and supply of goods and general cargo trade;
- Introduction of new trade protection measures;
- Potentially negative consequences from changes in tax laws.

To mitigate the risks arising from the above, we take various steps including hedging of foreign exchange exposure, whenever we feel necessary and diversification of business across territories.

II.E(ii) Non-compliance of laws, rules and regulations –

While the Company has systems in place for ensuring compliance with all the existing, applicable laws, rules and regulations, it is possible that regulatory authorities may interpret these differently at different points of time which may result in our non-compliance with such regulations and penal or other statutory action by the authorities.

The Management reviews the status of Statutory compliances on a continuous basis and initiates corrective action. To date, the Company has no material litigation in relation to contractual obligations pending against it in any Court in India or overseas. Also, a Chartered Accountant reviews statutory compliances of the Company and reports to the Board periodically. This is in addition to the Internal and Statutory audits of the Company.

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