Risk Management Policy

1. Preamble

In the course of its operations Weizmann Forex Ltd (hereinafter referred to as “the Company”) is prone to various business risks, both financial as well as non-financial.

The risks are varied in nature, and go hand in hand with the business opportunities, and it can never be assured that the Company operates in a totally risk free environment. The scope of this document is to formalize a risk management policy (hereinafter referred to as “the Policy”), to identify, evaluate and minimize identifiable risks.

The Policy shall be periodically reviewed by the Board of Directors, so that the risks are managed and controlled through properly laid down framework.

2. Risk Management

The term “risk” is defined as a chance or possibility of danger, loss, or other adverse consequences.

Risk management is the process of identifying and then managing 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.

Paragraph (C) of sub-clause IV of Clause 49 of the Listing Agreement states as under:

“The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework”

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, which reads as under:

“(II) (C) 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 the listed 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.

3. Risk Strategy:

The Board of Directors shall be aware of the major aspects of the company's risks and it shall approve and periodically review the Risk Management framework.

Senior Management shall have responsibility for implementing the risk management framework approved by the Board of Directors. The framework should be consistently implemented throughout the company, and all levels of staff shall understand their responsibilities with respect to risk management. Senior Management shall also ensure that the necessary processes and procedures for managing risk in all of the company's products, activities, processes and systems are in place.

The Company 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 totally eliminated. However, it can be:

• Transferred to another party, who is willing to take risk, by buying an insurance policy or entering into a forward contract;

• Reduced, by having good internal controls;

• Avoided, by not entering into businesses where risk involved is in excess of its risk appetite;

• 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 Company is a diversified company committed to excellence. The Company has Foreign Exchange, Western Union Money Transfer, Western Union Business Solutions, Travel and Insurance divisions.

The product range of the company comprises of:

- Foreign Exchange in the form of Currency Notes, Travellers' Cheques, Prepaid Foreign Travel Cards, Outward Foreign Remittances
- Inward Money Transfer
- Import Payments through business partners
- Air ticketing, packaged tours, group tours etc.
- Insurance – Travel, general and life

- Domestic Money Transfer (DMT) – through business partners
- Other financial products which can complement its general business
- Renewable Energy viz., Wind Power

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative.

Risk Categories

While risks can be categorized in many ways, the most common categorization is as under:

- Business Risk
- Market Risk
- Credit Risk
- Operational Risk

Brief description about each of the above risks is as under:

a) Business Risk

Business Risk, also referred to as Strategic Risk, is the current and prospective impact on earnings or capital arising from poor business decisions like entering a new business activity or sector without adequate consideration of risk-return trade-off, improper implementation of right decisions, or lack of responsiveness to industry changes. Reputation Risk is also another important Business Risk.

b) Market Risk

Market Risk refers to the possibility of incurring loss due to adverse movement of Exchange Rate or Interest Rate. Funding Liquidity Risk is also another Market Risk faced by any corporate.

b) **Credit Risk**

Credit Risk or the risk of default arises due to debtors' inability or unwillingness to pay the dues.

c) Operational Risk

Operational Risk can be defined as risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal and compliance risk.

Risk Management Framework

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.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve its objectives. Once these risks are identified, these risks would have to be

evaluated to see which of them will have critical impact on the company 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. Risk mitigation is an exercise aiming to reduce the loss arising out of various risk exposures as and when they materialise.

The Company adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and procedures. The Company believes that a robust Risk Management process would ensure taking required risk mitigating steps proactively to help achieve organisational objectives.

The Company shall constitute a Risk Management Committee (hereinafter referred to as "the Committee") consisting of the Managing Director, the promoter Director, the Executive Director and Business Heads of Forex, Western Union Division and Western Union Business Solutions (WUBS) Division. The Committee shall meet at least once in a quarter to review the implementation of this policy and any issue having bearing on various risks detailed in the policy. It shall also review the adequacy of risk mitigation measures taken by the Company and submit its report to the Board.

Activities at all levels of the organization, viz., Enterprise level; Division level and Business Unit level are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on four key elements, viz., Risk Identification, Risk Measurement, Risk Monitoring and Risk Control.

To meet the stated business objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified analysed, considering likelihood and impact, as a basis for determining how they should be managed and plans for managing the same are laid out.

6. Risks specific to the Company and the Mitigation Measures to be Adopted

The risks associated with the Wind Energy division of the company have been dealt with separately in Annexure – I.

The risks associated with all other products of the company are dealt in the following paragraphs.

6.1. Business Risks

a) The Risks

i) **Strategic Risk** – Growth and profit are the normal goal of any business organisation. However, expanding product portfolio with the sole aim of utilizing the existing infrastructure under the assumption of exploiting the fixed cost and therefore going in for low margin can adversely affect the long term profitability of the organisation. This is more so in the case of financial products as the production cost is considered as zero. Many risks, especially the Operational Risk are invisible in the case of financial products and therefore, tend to be ignored when organisation expands its product portfolio with the sole focus on 'profits' as against 'profitability'.

ii) **Reputation Risk** - A company's reputation is perhaps its most valuable asset. Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions. This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. Reputation risk exposure is present throughout the organization.

iii) **Regulatory Changes Risk**- Since the Business of the Company is regulated, any changes in such regulations can have an impact in the form of additional costs in the matter of compliances to be incurred or restrictions of any specific activities which was hitherto permitted.

iv) **Technology Changes Risk** – The way the business is carried out is fast changing on account of advances in the technology. With introduction of extensive use of mobile, internet, connectivity etc. can impair certain business activities presently being carried out.

b) Mitigation Measures

i) **Strategic Risk** – the risk of improper selection of new product or new business activity may be prevented by adopting systematic approach, as detailed below, for taking decision of entering new business activity.

a) Before introducing any new product/activity all risks involved have to be carefully identified and listed out by all stake-holders viz., the Product Head, Head of Operations, Head of Accounts, CIA etc.

b) Profitability of new product has to be carefully evaluated and findings of Break Even Analysis is given due consideration. While doing so assumptions and projections have to be examined to rule out the possibility of excessive optimism

c) The company may lay down maximum gestation period for any new product. Exceptions could be made only in rarest of rare cases with the approval of Management Committee.
d) To mitigate operational risk, detailed process of handling new product has to be laid down well in advance and has to be examined by the Accounts and Audit departments to ensure its adequacy.

e) To ensure the above, introduction of new product has to be signed off by "New Products Committee (NPC)" consisting of MD, Head of Risk, Head (Accounts & Finance), CIA, related Business Vertical Head, the Product Head concerned.

f) Such signing off should not be treated as a last minute formality or intimation but should be done well in advance to enable all concerned to carefully evaluate all aspects and should normally be done on a paper where all concerned certify the adequacy of processes under their signature.

ii) **Reputation Risk** - Preserving a strong reputation revolves around effectively communicating and building solid relationships with all stakeholders viz., shareholders, customers, employees and general public. Timely and accurate financial reports, compliance with all regulatory requirements, strong corporate governance and excellent customer service are important tools for mitigating this risk.

6.2.Market Risk

a) The Risk

i) **Exchange Rate Risk** – risk of incurring loss on account of adverse movement of forex rates. The company is exposed to Exchange Rate Risk on both, buy and sell sides. The receipts from Western Union expose us to sell side risk whereas periodical settlement of Travel Card dues (with Card Issuers) exposes us to buy side risks. While exposure on both sides provides us with in-built natural hedge, it would not provide us perfect hedge and we are still exposed to exchange rate risk on both sides

ii) **Interest Rate Risk** – risk of interest rate on company's debt moving upwards and adversely impacting profitability

iii) **Funding Liquidity Risk** – inability to meet financial obligations as and when they arise

b) Mitigation Measures:

i) **Exchange Rate Risk** – An optimum mix of forward contract, option and keeping the exposure un-hedged should be used for mitigating Exchange Rate Risk. Leaving the risk un-hedged may be considered only when forex market is not volatile and to the extent of availability of natural hedge. While forward contracts may be the best option during normal times, a part of the risk could be covered during volatile two-way movement of the forex market to take benefit of rates moving in favour of the company.

ii) **Interest Rate Risk** – Interest Rate Swaps (IRS) may be selectively used to hedge interest rate risk as under, with the approval of Management Committee:

a. Pay Fixed Receive Floating IRS may be taken if the Committee is of the view that interest rates are likely to go up in future; and

b. Receive Fixed Pay Floating IRS may be taken if the Committee is of the view that interest rates are likely to go down in future.
However, care shall be taken not to enter in to exotic derivatives for short term gains which, apart from hedging the existing risk exposure of the company, could expose company to risks not existent in the books.

iii) **Funding Liquidity Risk** – may be mitigated by having in place buffer/stand-by credit facilities with the banks

iv) Treasury Head shall be responsible for mitigation of Market Risk

6.3) Credit Risk

a) The Risk

Risks of non-settlement of dues by customers resulting in bad and doubtful debts, adversely impacting the profitability of the company.

b) Mitigation Measures:

i) Meticulously carrying out KYC and Customer Due Diligence process at the time of inception of customer relationship

ii) Putting in place a robust Credit Process to assess the credit worthiness of customers at the time of sanction of credit limit and at regular intervals thereafter

iii) Well thought out delegation of credit sanction powers with due consideration for operational requirement and individual risk assessment capabilities

iv) Mandating examination of audited financials for credit limits above a certain threshold limit

v) Regular monitoring of amount outstanding vis-à-vis credit limit, delay in payment of dues lengthening credit cycle etc. which could detect Early Warning Signals (EWS) of impending default

vi) Appropriate recovery management and follow up

vii) The ultimate responsibility for collection of dues shall rest with respective Business Heads

6.4) Operational Risk

a) The Risk

i) **Internal Processes Risk** – arises due to inadequate or failed internal processes like operating processes, HR processes etc. HR processes include “inadequate recruitment procedures for screening employees”, “inadequate training and change management programmes”, “poor succession planning” etc. Such HR operational issues contribute, in turn, to people risk

ii) **People Risk** - the risk that people do not follow the company’s procedures, practices and/or rules”, i.e., that they “deviate” from expected behaviour. Such deviation can be broken down into two components: deliberate deviant behaviour (human fraud - internal) and non-deliberate deviant behaviour (human error). As cash and foreign currency notes form the stock in trade of the company it is vulnerable to embezzlement, theft, misappropriation and frauds.

iii) **Systems Risk** – the risk arising out of complex or poorly designed computer based Information Technology systems either because they are unfit for the purpose or because they malfunction. This also includes data integrity risk due to poor software design or coordinating and interfacing risk. This could lead to frauds and IT Security failures.

iv) **External Events Risk** - External events – both expected and unexpected - can have a major impact on the company. This includes disruptive events like fire, flooding, earthquakes, terrorist actions, vandalism, power failures, etc.

v) **Legal & Compliance Risk** – Legal Risk arises due to noncompliance with statutory responsibilities and/or adverse interpretation of and/or unenforceability of contractual provisions. Compliance Risk arises as a result of its failure to comply with laws, regulations, rules, guidelines applicable to company's line of business. At times, these could be overlapping.

b) Mitigation Measures

i) **Internal Processes Risk** – Inasmuch as the company's lines of business involve handling of valuable, easily transferable and liquid cash and foreign currencies the company shall have robust processes and the following risk mitigations measures shall be adopted:

a) Having detailed Standard Operating Procedure (SOP) for all major processes, including HR processes is the fundamental requirement for mitigating this risk.

b) Having robust process for handling and daily tallying of balances of cash, foreign currencies and other valuables.

c) The SOP should be reviewed periodically, at least once a year, to ensure that modifications arising out of introduction of new products, new regulatory guidelines, learning from incidences of human errors and human frauds are incorporated in timely manner.

d) The IT based internal processes should incorporate the 'Maker Checker' concept.

e) Chief Internal Auditor (CIA) and Head of Accounts Dept. shall be responsible to put in place robust systems and procedures

ii) **People Risk** – the risks of human error and human fraud can only be minimised. They cannot be completely eliminated. The risk of human error may be minimised by adopting following measures:

a) Institutionalizing the SOP by subjecting employees to periodical training programmes, display of posters, ready to refer display cards etc.

Having robust internal audit system for ensuring that laid down processes are being followed at all levels and for timely detection of delinquencies.

c) Ensuring that audit findings are attended/rectified/implemented in a time-bound manner

d) Adopting an efficient process for quick investigation and an efficient disciplinary process culminating in appropriate disciplinary action, ranging from issuing a cautionary letter to dismissal of erring employee, commensurate with the lapses.

e) Giving Internal Auditors unhindered access to all places of business to conduct surprise checks.

f) Dealing with non-adherence to SOP with quick and firm action.

g) Ensuring that the Day end operations (of software system) are done on the same day, except in extreme situations, which shall be permitted only by a designated official after due consideration of reasons for postponement.

h) Branch Heads and controllers shall be personally responsible for ensuring adherence to laid down systems and procedures.

iii) **Systems Risk** – should be mitigated by having a comprehensive Information Technology Policy covering all major aspects of IT like IT Security, Data Back-up, Disaster Recovery System etc. Thorough System Requirement Study (SRS) shall be conducted before selecting the software for company's operations. Services of external experts could be enlisted to meet all these requirements if the company does not have such expertise in-house. Further, selection of a reliable software vendor is also of great importance. Adequate access rights control shall also be ensured. Testing of software at the time of selection and periodic modifications by the vendor as well as conducting User Acceptance Test (UAT) by carefully selected company officials is also critical to mitigate this risk. Wherever possible standard software compliant with all basic regulatory requirements shall be selected.

iv) **External Events Risk** - The Company should have in place appropriate arrangements like data back-up, disaster recovery systems and procedures etc. to ensure that it can continue to function and meet its obligations in the event of an unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness. Against the monetary loss arising out of such events the company should evaluate cost and acquire proper insurance, wherever deemed necessary.

v) **Legal & Compliance Risk** – awareness of applicable laws, regulatory prescriptions and legal and regulatory implications of business practices among senior management is the basic requirement for mitigating this risk. As a rule, legal and regulatory implications of various acts of omissions and commissions need to be analysed by independent legal and compliance officials not reporting to business heads. Any change in applicable statute and/or regulatory prescriptions should be incorporated in the SOP on on-going basis and transmitted across the company. Unlicensed software of any kind shall not be used in the company.

Annexure - I

Specific Risks in RE Power and Measures for Mitigation

In recent years there has been exponential increase in use of renewable technologies to generate power. India as well as many developed and developing countries world over are focusing on new sources of energy and this has increased the investment in renewable technologies.

In India, amongst all the renewable sources of energy, wind power leads the pack with about 55% of renewable power being from wind.

The company which is predominantly in the wind power sector, it has to encounter numerous risks factors from the conception to the commissioning stage. Each project installation offers different risk challenges and this includes the general environment, the natural calamities, planning, availability of equipment including material handling equipment in a timely manner and last but not the least the loss of profits which an entity has to encounter on account of equipment breakdown.

Though the company has been factoring in the variety of risks which are generally encountered in its business, as a policy document on risk management special emphasis is required to be given on the following :

Selection of site

The edifice of success of the wind power project is the right selection of the site. It is mandatory that detailed wind study is carried out by installation of wind mast at different locations and at different heights to capture the wind data for further detailed analysis of the wind direction, wind frequency, wind density, etc. It is always advisable to carry out study over minimum two wind seasons to understand the variability in the wind pattern over a period.

Since essentially the wind turbines when installed is required to be connected to the grid of the State Utility, the availability of proper and adequate capacity substations for power evacuation need to be evaluated. Many a times the responsibility of constructing a substation or laying overhead lines from the wind farm site to the substation is passed on to the developer and this would entail substantial additional costs which also need to be factored in while selecting the appropriate site itself.

Site Specific Turbines

There a number of manufacturers of wind turbines and in the past few years the market is for high capacity wind turbines to be installed at a greater height of 80 meters plus. Consequently the cost of equipment and installation is also relatively much higher than the cost prevalent about 5 to 6 years back. Since wind power project is capital intensive, it is essential that right type of turbine suitable to the site vis-à-vis cost of the equipment is evaluated thoroughly. Based on wind study, turbines with specific cut in and cut out speed could be procured so that generation is optimized.

It is also essential to evaluate the operational experience of the turbines in different terrain as the turbines may fetch good output but would also be prone to frequent breakdowns necessitating incurring of high cost on material handing equipment, storage of high cost inventory, mobilization of technical experts, etc. to ensure least down time. Hence selection of turbines which is site specific must also factor in the long term trouble free operation of the said turbines.

Micrositing and Design of Foundation

The success of wind power generation considerably depends on the location where wind turbine is installed. Even slightest uneven elevation on the ground or shadow effect of other turbines or any structures including trees of greater height can adversely impact the performance of the turbines and generation.

Considering the size and weight of modern wind turbines it has become vital that geo technical conditions are correctly evaluated and design of the foundation is sound and reliable. Lack of proper foundations can lead to collapse of the turbines. Therefore a complete assessment of geo technical conditions and foundation design is an important input for functioning of the turbines.

Climatic Conditions and Natural Disasters

Generally renewable energy projects especially onshore wind power is in remote places, hilly areas, and is susceptible to local weather conditions and natural environments. The technology of the turbine selected and design of the foundation to be suitable to withstand the prevalent natural adverse conditions at the site.

The site conditions may include wind with high velocity or harsh winter conditions which can impair installation of the turbines and at times the Engineers may have to stay put at site for many days expecting suitable site condition before installation could be commenced and completed.

Access to site

Since wind power projects are generally in remote areas, the access to site is an essential factor which has to be evaluated at the planning stage itself. Lack of proper approach roads can adversely impair movement of material handling equipment. The need to lay or relay the roads and making power evacuation arrangement over long distances can be a costly affair and at times an essential cost to be incurred if the selected site is so good that the returns from generation can offset such additional cost. However it is essential that the aspect of access to site is properly evaluated so that the cost thereof is also factored in for computing the expected return from the project. Many a times the exorbitant costs to be incurred on accessibility to the site can even lead a decision to abandon the site.

Erection and Commissioning

The cost control in installation of wind power projects is highly influenced by timely availability of suitable material handing equipments like cranes. Since in the present days turbines are heavy and are of higher capacity and perched on a greater height of 80 meters plus there is a mandatory need for high capacity cranes for lifting and reaching out to such greater heights. Ensuring availability of the required capacity cranes, its mobilization, demobilization and

ensuring that the equipment is optimally utilized with much lesser idle time can save considerable cost in the erection of the turbines.

The testing of the equipment both at the time of manufacture as well as before erection can considerably mitigate the risks and exposures that arise if proper testing of the equipment is not carried out. Such testing are not only to be carried out but also carried out with calibrated tools and laid down proper methods to ensure the quality standards are complied with.

Security

As the wind farms sites are in remote places and nowadays many wind farms are connected to centralized monitoring systems, there are every possibility of lesser manpower engaged especially in the operation and maintenance phase. Also with modern tools and equipment even in installation phase many a times lesser manpower need to be employed. The negative aspect of the same is invariably the equipment remains unattended and are prone to theft and damage by unscrupulous elements. The modern equipment comprise of lot of electronic components, copper cables, metal components which are all of costly nature and theft of the same can fetch good money to the culprit.

Also local political environment can also play an adverse impact in the form of vandalism and arson. There are areas which are infected by the naxalite movement too. Though such elements may not have any enmity with the wind power project or their personnel, the project and the personnel of the company can be misused by these anti social elements for their bargaining strength against the authorities.

In view of the above, evaluation of the local environment, proper and reliable security measures is essential from the planning stage itself and extend even during operation and maintenance. Good and reliable security, efficient monitoring systems can reduce such security exposures.

Operation and Maintenance of the Equipment

The operating losses in wind power is on account of grid failure, lack of availability of wind, machinery breakdown, force majeure causes, interference by the local people, etc

Grid failure is invariably beyond the control of the company.

Lack of availability of wind yet again an element not in the control of the company but the company ought to have factored in the wind variability from season to season at the planning stage itself.

Force majeure causes is again not a manmade element and requires proper risk coverage through insurance policies.

Interference by local is again beyond the control of the developer and at best the company can ensure cordial relationship with the local society. However the company must obtain insurance cover for mitigating risks like malicious damage, theft, etc. that could be caused

Machinery breakdown is materially within the control of the developer. The least the machinery down time, the better for the company to harness the wind power. The company must ensure availability of spares and components, tools and equipments, material handling equipment, technical expertise to attend to troubleshooting and replacement of parts and components

where called for. Sourcing of correct parts or critical components for which delivery time is long can adversely affect the generation potential of the turbine for the specific period. The company has to properly evaluate and trade off the carrying cost of inventory including insurance premium thereof vis-à-vis loss of value of generation on account of lack of availability of required parts and components. The availability of critical components in right quality and quantity is a must especially considering the fact the wind farm projects are in remote places and it takes time for sourcing and receiving delivery of such critical parts and components.

The essential equipment in wind turbines like gear box, blades, need extra care as these are not only costly but maintaining spares could be a more costly affair.

Negotiating a good warranty at the time of purchase of turbines and later procurement of critical parts and components plays a vital role of providing protection against material cost of the equipment failure albeit it would not insure against loss from business interruption.

It is not only ensuring availability of proper parts, components and tools but it is more important that these items are properly and securely stored, precautions on maintenance like oiling, greasing, calibrating are periodically carried out so that when needed these items can be used without further work on the same.

Continuous monitoring of the wind turbines both physically as well as through control systems is a must for early detection of any defect developing so that potential problems are detected, attended to and eliminated to minimize or even eradicate the potential damages both to the equipment as well as in the form of loss of value of generation.

The overall operation and maintenance costs and whether to carry out the operation maintenance in-house or engage contractors on comprehensive or non comprehensive basis is also an essential element influencing the cost of operation of the wind turbine.

Since generally wind pattern follows a system of high wind and low wind seasons in India, it is imperative that during low wind season proper and systematic preventive maintenance of the turbines are carried out so that the turbines are ready for the next wind season to harness optimum wind power.

Fire Protection

It is seen that fire even though not a frequent calamity, when occurs causes extensive damage not only to the installation but also to the company personnel working around. The fire can emanate from hydraulics, gear boxes, fuel sources, etc. Hence it is essential that the turbine installation is well equipped with fire detection and fire control and extinguishing of fire systems are available at site. Such systems and equipments are also required to be periodically maintained so that when needed they are in working condition and is of utility value for which it is meant for.

Financing of the Project

Financial risks are non technical risks involved in a wind power project. They could be in the form of exchange rate risk if financing is from foreign currency loans and interest rate risk irrespective whether borrowing is in India or overseas.

In the event of financing of the project under Foreign Currency Loans it is essential that the company evaluates the exchange rate risk over long period of repayment of the loan and opts for optimum mix of forward contract to mitigate the exchange rate risk in a volatile market. Leaving the risk un-hedged could prove to be a disaster if there exist a sudden and volatile adverse exchange rate movement.

Apart from exchange risks, interest rate risk is also a costly risk. Currently many a financial institutions extend floating rate risk which though may prove to be beneficial in the initial stages of the project can prove dear in the runaway hike in the interest rate which is directly linked to macroeconomic situations.

Liquidity risk is yet another important aspect of the project. With uncertainties in policy related matters, of both Government and Regulatory authorities, invariable misinterpretation of the provisions of law and regulations by the state utilities is a great concern when certain approvals for say third party sale or execution of PPA is delayed inordinately beyond one's comprehension can lead to lack of realization of generation dues. The financial situation of many state utilities in the country being precarious there has been default in payment of generation dues by many such utilities. Even though these risks are invariably beyond the control of the company, the adverse effect is lack of liquidity leading to payment default to the lending institutions which in turns suffers from Non Performing Assets and financing of wind power projects considered a high risk preposition and even credit rating of the company getting a beating.

Other Risks

Risks in the form of availability of quality technical personnel, compliance with legal provisions applicable to operation of the wind turbine, in wind power industry is of lesser magnitude but not to be ignored. The number of people required for operating and maintaining wind turbines is relatively less as compared to other industries and currently market do produce technically sound personnel. The legal compliances involved in wind turbine industry are generally the normal applications of labour and economic laws and is a regular matter.

New Risks

The company has adopted different strategies in different states where its wind farms are operating. In some states, the sale of power is to the state utilities wherein there are lesser issues. However the tariff applicable on the post initial validity of Power Purchase Agreement has proved to be a critical one. But unfortunately the said risks has been beyond control since proper alternative is also not available.

In certain states the company has opted for open access wherein too frequent hiccups is arising by constant change in the settled procedures by state utility and at times the regulatory authorities in the larger interest of the financial position of the state utilities which has been precarious for quite long accepting the suggestions of such state utilities at the cost of smooth and economic operation of the existing wind farms.

Though wind power is a miniscule contributor to the total energy handled by the grid in the state as well as nationally, unfortunately the regulatory authorities have not been differentiating the non conventional energy vis-à-vis conventional energy and introducing concepts like scheduling of wind power which is next to impossible on account of its infirm nature, attempting to adopt

competitive bidding, etc. which are new risks round the corner, the mitigations of which could be at high cost and high uncertainty.

Risk Control and Follow Up

After the identification of the risks and evaluation, the next step to be on the risk control and follow up mechanism. The risks involved in a typical setting up of a wind farm and operation and maintenance thereof detailed above need a proper corporate control procedure which calls for allocation of responsibility for action at every stage of the project.

The strategy should detail the risk management plan involving defining the objectives, ensuring resources, fixing timelines, accountability and reporting indicators and frequency.

At the end of the given project, the project risk plan is required to be compared against the actual project journey and achievement thereof. The report could address issues like

Political risks which are often characterized by discreet event where developer hardly has any control. This could encompass the stability of the central and state government for stable policies affecting renewable energy, energy and climate policy changes, fiscal benefits like accelerated depreciation, generation based incentive, concessional excise, customs and VAT, Government investing in infrastructure, the clarity and speed with which the policy and operating issues are dealt with by Electricity Regulatory Commissions, Appellate Authorities and Courts.

Economic risks which could be managed through insurance, negotiating guarantees, opting for derivatives in financing and risk transfer process. This also include interest rate risk, credit risk, currency risk where imports and finance arrangements involve foreign currency, insurance premium, feed in tariff determined by the Regulatory authorities, land lease and labour related issues.

Social risks addressing safety, social and environmental impact like adverse effect on flora, fauna and climatic changes – there have been issues in the past when the projects have been blamed for death of migratory birds or having adverse effect in the rainfall. The expert committees however have negated such adverse impact.

Technical risks managed through guarantees, warranties, insurance, etc

During implementation stage the risks can be categorized to high risk, medium risk, low risk so that acute ones are focused upon. The risk can also be matured or known risk, known unknowns i.e. emerging risks, unknown unknowns i.e. latent risk which were never expected but which can crop up or arise in the progress of the project.

The risk control from the stage of setting up and during operation to factor in the effect of risk on both schedule and cost

A statistical probability distribution can represent each risk and related cost and duration of the activity. The tools could include scientific budget, critical path network

Sensitivity analysis is an important tool to be applied even before venturing into the project. The mathematical model adopted must provide different scenarios if different variables are changed so that the ultimate decision is scientific and based on clear cut objectives and returns expected for a set of parameters.

Basically the risk control strategies must consider the probability and consequence of the risks and focus on main risks through proper evaluation. The normal process amongst the stakeholders involves collection of information, brainstorming, prioritization and mitigation plans. The process of risk management would necessitate avoidance like change of the project plan on account of time, costs, scope, quality, etc. Mitigation i.e. reduction of the probability of adverse effect and taking early action to reduce the adverse risk factors, transferring or sharing the risk element say through proper insurance of the risk or through negotiation of warranties and guarantees, acceptance of the risk as certain risk which are not acute ones necessitating rejection of the project, cannot be eliminated but could be lived with like marginal overrun of costs.
