

RISK MANAGEMENT POLICY

Introduction

Shahtaj Sugar Mills Limited (SSML) has implemented comprehensive risk management systems to address all material and controllable risks that could affect the Company's operations. These systems are crucial for achieving SSML's vision and strategic goals, ensuring financial stability, and maintaining operational efficiency. Risk management involves assessing the likelihood of identified risks materializing and their potential impact, with clear preventative and mitigation measures in place. SSML regularly assesses, monitors, and reports on the changing nature of these risks.

Key Risk Areas and Mitigation Measures

1. Raw Material Risk

Description: Sugarcane is the primary raw material for sugar production. Any disruption in its timely availability can significantly impact operational costs, especially since market values do not always reflect variable costs influenced by climatic conditions and cane economics.

Mitigation Measures: SSML maintains strong relationships with farmers, ensuring timely payments and fostering goodwill and trust. Initiatives such as farm mechanization, drip irrigation, improved cane varieties, and carefully scheduled cane planting and harvesting bolster raw material availability.

2. Policy Risk

Description: The sugar industry is heavily regulated by Central and Provincial governments, which control raw material prices and influence sugar selling prices.

Mitigation Measures: SSML is an active member of the Pakistan Sugar Mills Association (PSMA), collaborating on policy recommendations to represent industry needs to the government. The company advocates for policies on cogeneration power and reviews of sugar weightage in the Wholesale Price Index (WPI).

3. Cyclical/Commodity Risk

Description: Sugar prices fluctuate due to the cyclical nature of the sugar business and global supply-demand dynamics, impacting profitability.

Mitigation Measures: SSML integrates sugar production with bagasse-based cogeneration power, providing a buffer against price volatility and ensuring a steady revenue stream.

4. Exceptional Input Cost Increases

Description: Rising costs of fuel, electricity, fertilizer, and labor can squeeze margins and affect long-term competitiveness.

Mitigation Measures: SSML employs centralized supply-chain contracts and continuous improvement (CI) targets for operations executives to manage and control costs effectively.

5. Factory Utilization and Performance

Description: Sub-optimal factory utilization and performance, caused by cane supply interruptions, poor cane quality, and unplanned equipment breakdowns, pose risks to the business.

Mitigation Measures: SSML regularly reviews detailed weekly factory reports, implements de-bottlenecking programs, secures consistent cane supply, and focuses on continuous improvement through capability development and enhanced logistics management.

6. Interest Rate Exposure

Description: Fluctuations in interest rates, driven by country risk and macroeconomic factors such as the strengthening US Dollar, can increase financing costs and affect capital project affordability.

Mitigation Measures: SSML monitors interest rate trends and adopts financial strategies to mitigate exposure, such as fixed-rate financing and hedging instruments.

7. Internal Control

Description: Maintaining an effective and efficient internal control system is crucial to safeguarding shareholder investments and company assets.

Mitigation Measures: SSML's Board of Directors ensures robust internal controls covering all operational aspects, complying with relevant laws, rules, and regulations. Clear procedures for the delegation of authority and responsibilities are established. An independent Internal Audit Office is in place to ensure compliance across all departments.

Conclusion

SSML is committed to robust risk management practices that safeguard the company's interests and support its strategic objectives. By proactively identifying, assessing, and mitigating risks, SSML ensures sustainable growth and resilience in a dynamic business environment. The Board of Directors, management, and all employees play a critical role in the continuous improvement and effectiveness of the risk management framework.

DISCLOSURE:

As per the requirement of the clause 35 of the Code of Corporate Governance Regulation 2019, this policy has been placed at Company's website.