

Risk Management Framework

L&T Hydrocarbon Engineering Ltd (LTHE) has institutionalised risk management process with clear policy, guidelines and usage of quantitative tools to protect operating margins. The Risk Management process is aimed at identification, assessment, mitigation and monitoring risks from pre-bid to close out stage.

The Audit Committee of the Board oversees the effectiveness of the risk management process. The Company has in place mechanisms to inform Board Members about the risk assessment and risk minimization procedures. The board members periodically review to ensure that executive management controls risk by means of a properly defined framework. LTHE has its risk management policy and procedure within the overall ERM framework of Larsen & Toubro Ltd. The process followed by the Company is in compliance with the International Risk Management Standard ISO 31000:2009.

Engineering and construction business, by nature, has uncertainty associated with risks and opportunities. Risk Management is an important function for sustainability of the Company. The ability to anticipate risks and respond effectively is critical for achieving the Company's objectives.

All projects undergo a well-structured pre-bid risk review process by risk management committee at business and corporate level with well-defined authorisation levels. The process involves a detailed assessment of risks and deliberation on mitigation measures by the risk management committee. In case of first time entry to a new country or geography, a country clearance process is carried out by evaluating the risks and opportunities. The Company follows a system of on-going projects risk review at regular intervals till the completion of the project. Suitable strategies are discussed to mitigate the changing complexion of active risks.

Industry-wide tools like Palisade, @Risk, Primavera Risk Analysis are deployed for cost estimation and schedule risk analysis to enhance quantitative risk management.

LTHE is one of the sponsor members for Engineering and Construction Risk Institute (ECRI), USA - an initiative of World Economic Forum which has sponsor membership of 37 leading global companies from Engineering and Construction industry.

LTHE's risk management practices ensure that the Company accepts risks within defined parameters for which it is adequately compensated. Risk Management targets to improve the efficiency by undertaking quality projects, reducing costs, improving productivity which consequently leads to managing the risks better.