

Risk Management Policy & Internal Controls Policy of MOHANLAL HEMCHAND PVT LTD

Preamble

Our Company believes that there should be a constant balance between risk and returns. Our policies and actions are guided giving due weightage to risk factor. In our industry major part of revenue is eroded due to bad debts resulting through client defaults. We have identified issues crucial to our business and have tried to address the risk arising from such entities and situations. Risk arising from client default, Business Associates, employee turnover and operational risk is discussed here. Back up for technology risk is also covered here.

Selection of Client

We mainly acquire retail clients from 2 different channels comprising direct clients serviced from our office and through business associates (sub broker/remesier).

Bolt on Web: We have facility to allow clients to trade through BSE's BOW Portal. We set trading limits in advance for all such clients depending on his risk bearing capacity of the client or deposit/MARGIN with us.

Direct clients: We do not have a marketing setup for acquiring clients to be serviced from our office. Clients serviced are those who have been acquired through relationships and referrals from known sources or existing clients.

Our other stated policy on client selection is to acquire clients whose basic belief is investing and less of speculation. We ensure through various measures including risk management measures that we are able to attract more of delivery base client rather than speculative based. This policy is explained to the sub-brokers/remesier. WE only trade in cash market segment of BSE LTD. We do not trade in DERIVATIVES.

We insist that before we introduce the client to our company they complete documentation like KYC, Client Broker Agreement etc. and register the details into the UCC module of BSE.

Receiving, validating & entering the orders.

Most of our traders and investors carrying out full time investment activities are invited to our front office. They give orders themselves to our dealers who enter the order into the BOLT system in the respective client codes. Clients codes are generated by back office on completion of registration

process. For validating client codes, codes entered in BOLT are matched with the data where all the active clients codes are present.

We also receive orders from our clients through telephone. These orders are executed into the BOLT system only after ascertaining the identity of caller and validating client codes as explained above.

At end of the day all the trades are processed and contracts /bills are generated showing executed trades, market rate, net rate, brokerage and other statutory/non-statutory levies. The contracts/bills are delivered to clients within stipulated time.

Policy for dealing with wrong trades

Wrong trade necessitates client code changes. These genuine client code changes are done during market hours or post closing session after discussion with directors and authorized person.

Client Default Risk

In line with our thought process we decided on a policy of monitoring risk at client level. The clients are acquired directly by us or through sub brokers/Remesiers. Few years back this industry had the system of billing the sub broker and not the ultimate client. Due to this the risk on account of each client cannot be measured. At the time of sub broker default the main member was faced with litigations. This system also encouraged misuse by sub broker as credit of one client was adjusted against default of other client. To overcome this we introduced the concept of registering clients directly in our books through Sub-brokers/Remesiers and started motivating our sub brokers to adopt this system. Though we faced some resistance in the beginning but after realizing the plus point of this system our existing sub brokers started converting to this system. In due course SEBI realized the benefit of this system and made it compulsory in the whole industry.

We have designed our software in such a way that client level risk monitoring is feasible. In fact we are one of the very few in the industry who has individual client level risk management. The underlying principle behind this policy is to ensure client with good credentials backed with security are encouraged. Good clients are not put to hardship due to defaulted clients.

To identify the potential of the client we have our own internal mechanism by which clients can be categories into 2 category namely No risk Category & Risk Category. We use different parameter to carry out this exercise. These parameters include financial background of clients, references and past dealings.

The limits are set based on money credit and valuations of their stock available in their depository account with us. The exposure differs for every client and is set based on their individual grading. We have followed and encouraged bill to bill settlement policy for the clients which reduces client risk to zero percentage.

In case of client selling shares the same are accepted only from his designated account. If the client wants to deliver from account other than his designated account then he has to submit proof of ownership of the other account. No third party shares are accepted. Likewise shares are released only to designated account. The shares are released through process of Auto Payout i.e. shares are directly credited to the client's designated account by passing our Pool Account. We are adopting

this process for our clients in “ No Risk Category”. For Clients in Category “ Risk “ the shares are released after verifying the client has clear credit or nil balance in his ledger account. We do not allow any client to trade further in case debit balance in ledger.

In case of fund payout it is done in the name of the client only and no third party cheques are issued. All the payments are done from NEFT/RTGS. This is to safeguard from misuse by any individual.

We have a clear-cut policy of not adjusting one clients debit against another except if the client belongs to one family or belongs to single Remesier. We DO NOT allow offsetting interfamily debit credits. This is done to safeguard from misuse of accounts among family members and a later date dispute, which may result in liability to us.

Operational risk:

We believe in technology to such an extent that we bring innovative products and practices in the industry. The usage of technology also ensures reduction of operational risk to a large extent. We also constantly work towards automating all our process, which is manpower intensive. Due to automation the error % is reduced leading to lesser risk. By implementing automation we have achieved standardization resulting in quality improvement.

Manpower risk: The industry is prone to high attrition. To overcome this we believe in recruiting fresher and train them. Due to training and imbibing our value system at the initial stage of a persons career the attrition is comparatively low. We also ensure to recruit 10-15% extra staff to take care of work not affecting due to employee churning. The job profile and expectations are made clear at all levels. Second rung leaders support the head of the department and we ensure they are groomed so that replacement is not a factor. We take care to avoid over dependence on any single individual by either readjusting the portfolio and or by training the next in command

Business Continuity Planning :

We give very high importance to business continuity in case of disaster as we are highly dependable on technology & infrastructure. Keeping this in mind we have designed very strict schedule and we follow them religiously.

We backup all our database twice on weekly basis. We create this backup on different medium. On weekly basis we create copy of database on stand by PC. On weekly basis the entire database is backed up in Portable HDD. These backups are stored either at Director’s residence or in safe deposit vault.

We are dealing through Ethernet connection of BOLT as our office is situated in P J TOWERS which is considered very safe and fast for connectivity.