Kalpataru Limited

Risk Management Policy

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1. **OBJECTIVE:**

The Key objective of the Risk Management Policy of Kalpataru Limited **("KL or Company")** is to institutionalize a formal risk management framework in the Company pursuant to Regulation 17(9)(b) read with 21 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time and provisions of Companies Act, 2013. The aim of this Policy is to develop a framework to contribute to safeguarding value and interests of various stakeholders associated with the Company and ensure that business opportunities are pursued without exposing the Company to an unacceptable level of risk and appropriate & effective mitigating controls are in place.

2. **PHILOSOPHY:**

The Company's philosophy concerning this Policy is that while achieving strategic objectives, it is imperative to analyze, assess, mitigate, monitor, prevent, and govern any risks or potential threat. The systematic and proactive identification of risks and mitigation thereof shall enable effective and quick decision-making, business continuity, and shall improve the performance of the organization.

3. **SCOPE:**

This policy is applicable to all employees, processes or functions within the Company.

4. **RISK MANAGEMENT COMMITTEE:**

The Board of Directors of the Company has constituted Risk Management Committee in line with requirements of provisions of SEBI (LODR) Regulations, 2015. The Chairperson of the Risk Management Committee shall be member of Board of Director. The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director. Senior Executives of the Company may be the members of the Committee. The Committee shall meet at least twice a year in such a manner that on a continuous basis not more than Two hundred and Ten days shall elapse between any two consecutive meetings.

Further, the quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, with at least one member of the board of directors in attendance.

5. **RISK OWNERS :**

Risk Management Committee shall appoint Risk Owners from each functions / processes / business unit within the Company from time to time depending on the organizational structure and business imperatives so as to ensure that risks pertaining to all critical and significant functions/verticals are captured while identifying, assessing and managing risks. Risk Owners should ensure that all the risks within their respective functions are identified, assessed, monitored and managed effectively to ensure that risk management practices are implemented.

The Risk Owners may be modified over a period of time, depending upon their changing roles and responsibilities within the Company.

6. ROLES & RESPOSIBILITIES FOR RISK MANAGEMENT

Responsibility Holder	Responsibilities
Board	The Company's risk management architecture is overseen by the Board and the policy to manage risks is approved by the Board. Board's role includes the following: • Ensure that the Company has proper risk management framework; • Define the risk strategy, key areas of focus and risk appetite for the company; • Approve risk management policy; and • Ensure that Risk Management Committee takes necessary steps to identify, measure, monitor and control these risks; Board should meet at least once in a year to review the top risks faced by the Company and the status of their mitigation plans.
Audit Committee	As per the requirement of Section 177(4)(vii) of the Act, the Audit Committee's terms of reference includes evaluation of internal financial control and risk management systems. Audit Committee should meet at least once in a year to oversee the risk management and internal control arrangements and shall also evaluate internal financial controls and risk management systems of the Company. As an additional means of reassurance, the Audit Committee may direct the Corporate Internal Auditor to provide an independent report on the efficacy of risk management with respect to the critical risk factors or selective risks.
Risk Management Committee	The Risk Management Committee, as constituted by the Board, is the key committee which implements and coordinates the risk function as outlined in this Policy on an ongoing basis. Its role includes the following: • To formulate a detailed Risk Management Policy which shall include: a) A framework for identification of internal and external risks specifically faced by the Company, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee. b) Measures for risk mitigation including systems and processes for internal control of identified risks. c) Business continuity plan

	• Design and implement an Enterprise Risk Management Framework ("ERM Framework"), covering internal and external risks; • Ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company; • Periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity, and recommend for any amendment or modification thereof, as necessary; • Keep the Board of directors of the Company informed about the nature and content of its discussions, recommendations and actions to be taken; • Powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary. • Any other similar or other functions as may be laid down by Board from time to time and/or as may be required under applicable law.
Risk Owners	• Implementation of Enterprise Risk Management Framework ("ERM Framework"), covering internal and external risks; • Monitor key risks faced by the Company and associated mitigation plans and report these to the Risk Management Committee; • Identify opportunities to proactively convert risks into opportunities to deliver improved performance; • Suggest ways and means to minimize and mitigate the adverse impact of risks to the enterprise and its operations, thus enhancing its long-term competitive advantage • Ensuring implementation of the decisions of the Risk Management Committee.
Internal Audit	• Independent assurance on the efficacy of risk management process. • Scopes audit work based upon the significance of risk to the business. • Internal Auditor may consider certain risks in its annual Internal Audit plan & independently report its assessment to the Audit Committee and the Business/Function

7. RISK REPORTING & MONITORING FRAMEWORK:

KL shall have below reporting structure with respect to Risks faced by the Company:

- **First line of reporting**

The Risk Owners shall prepare risk sub-registers along with mitigation plan and share it with Risk Management Committee on periodic basis for discussion. They shall review the existing risks and evaluate the need to re-assess such risks on periodic basis. They shall also identify new risks on an ongoing basis. In case of any business scenario which has resulted in a risk with high rating, the same will be updated and shared with Risk Management Committee immediately. The Risk owners shall diligently comply with the responsibilities bestowed upon them under the ERM framework of the Company.

- **Second line of reporting**

The Risk Owners shall periodically review the risks, identify the key risks with mitigation plan and report to the Risk Management Committee. Based on inputs for the key risk and mitigation plan, Risk Management Committee shall direct the Risk Owners to implement the mitigation plan and maintain records of the risks in the risk register.

- **Third line of reporting**

Risk Management Committee shall annually apprise the Board and the Audit Committee on the key risks faced by the Company and the mitigation measures taken.

Additionally, Internal Audit provides independent assurance on the efficacy of risk management process. Internal Auditor may consider certain risks in its annual Internal Audit plan & independently report its assessment to the Audit Committee, Board and the Business/Function.

8. RISK MANAGEMENT PROCEDURE:

1. Risk Identification

a) The risk assessment exercise starts with understanding the potential risks that may restrict the Company to meet its business objectives, growth plans and annual plans.

b) The risk assessment exercise shall be carried out by Risk Management Committee along with Risk Owners in order to identify the list of risks that require management attention and monitoring.

c) Following risks are generally faced by the Industry in which the company operates:

- **Strategic risks** – For mid-size organizations, the key business decisions can have a significant impact on their long-term growth potential. Venturing into new areas is inevitable to meet strategic objectives and sustainability goals. To have a competitive edge, businesses acquire new resources or invest in strategic partnerships to expand business outreach, effective project execution. However, such decisions come with a fair amount of risk. Additionally, the ever-changing economic policies may influence the strategies and performance of the Company. The mismatch in demand and supply and competitive products may influence the market share of the Company.

- **Operational risks** – Risks related to project execution, delays in project completion, impact on environment, manufacturing defects, labor unrest, adverse political developments, injuries, accidents, natural calamities, pandemic, suspended operations of a plant may affect the operations of the Company. Given the scale of operations, even the slightest disturbance can have a significant impact on work force or revenue.

- **Financial risks** – The financial risks relate to adequate liquidity for routine operations and availability of funds, impact of currency fluctuations, fluctuations in prices of commodities, change in credit ratings, credit defaults, counter-party risks, etc. It also includes the risks associated with the investments of the Company. The financial performance of its subsidiaries, associates and any other affiliates that may adversely affect the Company's results should be closely monitored. In furtherance to above, Company also has an exposure to the Interest rate Risks, which largely depends upon the macro economic factors prevailing in the country and worldwide.

- **Regulatory risks** – Non-compliance to the applicable laws may result in liabilities and may affect the reputation of the Company. The frequent changes in regulatory norms require the Company to act pro-actively to comply with regulatory requirements as and when implemented and follow required standards.

- **Sustainability Risks** – Economic, Social and Governance (ESG) risks are leading to significant disorders across many organizations however, some organizations also see it as a competitive advantage. The pandemic also bring along serious uncertainties for businesses both in domestic as well as global markets. Climate change has made us to focus even more on the non-traditional energy sources.

- **Cyber Securities Risks** - With an ever-increasing dependency on the IT networks, the Company has a significant focus on the Cyber Security threats.

- **Business Continuity Planning (BCP)** – KL recognizes the importance of BCP for the smooth running of business particularly during unfavourable times, political unrests, including pandemic. The Company focuses on business continuity, both from a business operations sustainability viewpoint as well as employee welfare measures perspective. Company's BCP mainly emphasizes on the below key three elements.

    - **Contingency Planning:** Make a proactive effort to foresee possible events and plan to deal with them.
    - **Recovery:** Makes efforts to save and restart critical processes after an incident.
    - **Resilience:** Ability to provide critical support, materials and services during and after a crisis. Resilience includes protecting staff and other resources.

The above is a broad classification of risks faced by the Company and is not an exhaustive list and may vary from time to time.

2. **Risk Prioritization**

    a) The risks identified during risk assessment exercise are mapped on the criteria of Risk Appetite and Risk Impact and Risk Rating is assigned accordingly.

    b) The Risks faced by the Company shall be divided in 3 priorities i.e. High, Medium and Low.

    c) Risk Rating shall be done based on the criteria to be developed in this regard by Risk Management Committee.

3. **Risk Mitigation**

    a) The Risk Management Committee needs to ensure that a formal mitigation strategy is prepared and reviewed for Priority Risks.

    b) The Risk owners shall have the responsibility to ensure implementation of the risk mitigation plans.

    c) Risk Mitigation Framework:

    All identified risks should be mitigated using any of the following Risk mitigation plans:

    - **Risk Avoidance:** By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.

    - **Risk Transfer:** Mitigation by having another party to accept the risk, either partial or total,
    typically by contract or by hedging / Insurance.

    - **Risk Reduction:** Employing methods/solutions that reduce the severity of the loss e.g. concreting being done for preventing landslide from occurring.

    - **Risk Retention:** Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater

9. RISK CULTURE AND ADOPTION:

While a top down mandate is required to effectively implement Risk management systems, having a conductive risk culture will engrave it in various parts of the organization, demonstrating the benefits of having an effective ERM program and encourage risk owners to proactively identify risks or challenges. There shall be free and open forums at various levels in the organization to discuss risks or challenges to the business, bubbling up to the right level of leadership. Business leaders shall take the responsibility for proactively managing the risks and achieve the stated goals.

10. POLICY REVIEW:

a. This Policy is framed based on the provisions of the Listing Regulations and the Companies Act, 2013.

b. In case of any subsequent changes in the provisions of Listing Regulations, Companies Act, 2013 or any other applicable law which make the provisions in the Policy inconsistent with the Listing Regulations or any other applicable law, the provisions of the Listing Regulations and such law shall prevail over the Policy and the provisions in the Policy shall be modified in due course to make it consistent with applicable law.

c. **Periodic maturity assessment, improvement, and innovation:**
Periodic assessment of the adequacy of ERM framework, function, mapping against any available risk maturity models and identifying the areas of improvement shall be done to ensure continued relevance of program and framework to the Company. Such review and assessment shall be carried out in at least once every two years by the RMC. Any changes or modification to the Policy shall be recommended by the RMC and be placed before the Board of Directors for approval.

Annexure A: Risk Register

Index of Updates

Date of Update by Risk Owners	Approved by RMC on

SN	Function / BU	Risk description	Root Cause	Risk Rating	Risk Owner	Mitigation Plan