KALPA COMMERCIAL LIMITED

Risk Management Policy

1. **PREAMBLE**

The purpose of this Framework is to support **Kalpa Commercial Limited** ("KCL" / "the Company") in making risk-informed decisions and to provide the basis for evaluating and monitoring the risk profile of KCL on an ongoing basis. The Framework provides a shared understanding of, and promotes a consistent approach to, risk management within KCL in line with the KCL Charter and KCL goals and objectives.

Risk is defined as the effect of uncertainty on objectives. Risk can be positive, negative or both, and can address, create or result in opportunities and threats, thereby directly impacting KCL's operations. Risk is usually expressed in terms of risk drivers, potential events, their consequences and their likelihood.

Risk management is not about eliminating risks, but about making informed decisions about how to anticipate uncertain events (i.e. what risks to avoid, how to reduce risk exposure, how to limit potential negative consequences, how to knowingly accept some risks, etc.). The Risk Management Policy (RMP) provides a shared understanding of what risk management is about and introduces common language and minimum standards and processes.

Effective risk management requires:

- A strategic focus,
- Forward thinking and active approaches to management,
- Balance between the cost of managing risk and the anticipated benefits, and
- Contingency planning in the event that critical threats are realised.

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative. The common risks inter alia are: Regulations, competition, Business risk, Technology obsolescence, return on investments, business cycle, increase in price and costs, limited resources, retention of talent, etc.

Accordingly, the Board of Directors has approved this policy at their meeting held on 27.08.2021.

2. **LEGAL FRAMEWORK**

Risk Management is a key aspect of Corporate Governance Principles and Code of Conduct which aims to improvise the governance practices across the business activities of any Organization. The Companies Act, 2013 has also incorporated various provisions in relation to

Risk Management policy, procedure and practices.

The provisions of Section 134(3)(n) of the Companies Act, 2013 necessitate that the Board's Report should contain a statement indicating development and implementation of a risk management policy for the Company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

Further, the provisions of Section 177(4)(vii) of the Companies Act, 2013 require that every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia include evaluation of risk management systems.

In line with the above requirements, it is therefore, required for the Company to frame and adopt a "Risk Management Policy" (this Policy) of the Company.

3. SCOPE OF THE POLICY

This policy establishes the process for the management of risks faced by Kalpa Commercial Limited ("KCL"). The aim of risk management is to maximize opportunities in all activities and to minimize adversity. This policy applies to all activities and processes associated with the normal operations of KCL. Effective risk management allows the Company to:

- embed the management of risk as an integral part of its business processes;
- establish an effective system of risk identification, analysis, evaluation and treatment within all areas and all levels;
- Make informed decisions
- avoid exposure to significant reputational or financial loss;
- assess the benefits and costs of implementation of available options and controls to manage risk.
- Have increased confidence in achieving its goals.
- Strengthen corporate governance procedures.

Thus, it is the responsibility of all Board members, Senior Management and employees to identify, analyse, evaluate, respond, monitor and communicate risks associated with any activity, function or process within their relevant scope of responsibility and authority.

4. DEFINITIONS

(a) "Risk" - Risks are events or conditions that may occur, and whose occurrence, if it does take place, has a harmful or negative impact on the achievement of the organization's business objectives. The exposure to the consequences of uncertainty constitutes a risk.

(b) "**Risk Assessment**" – The systematic process of identifying and analyzing risks. Risk Assessment consists of a detailed study of threats and vulnerability and resultant exposure to various risks.

(c) "**Risk Event / Trigger Point"** - Risk Event / Trigger Point can be defined as a discreet occurrence that negatively affects strategy, decision and process and results in a pecuniary loss.

(d) **"Process"** - Process would mean series of actions or steps taken to achieve an end. All processes individually and severally shall cover all business activities for each of the risk assessment function.

(e) **"Risk Strategy"** - The Risk Strategy of a company defines the company's standpoint towards dealing with various risks associated with the business. It includes the company's decision on the risk tolerance levels, and acceptance, avoidance or transfer of risks faced by the company.

(f) **"Risk Estimation"** - Risk Estimation is the process of quantification of risks.

(g) **"Risk Management"** - Risk Management is the process of systematically identifying, quantifying, mitigating and managing all risks and opportunities that can affect achievement of a corporation's strategic and financial goals.

5. APPLICABILITY

This Policy applies to all areas of the Company's operations.

6. RISK MANAGEMENT FRAMEWORK

In principle, risk always results as a consequence of activities or as a consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks.

Risk mitigation is also an exercise aiming to reduce the loss or injury arising out of various risk exposures. KCL adopts a systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and regulations. The Company believes that this would ensure mitigating risks proactively and help to achieve stated objectives.

The Company will consider activities at all levels of the organization and its Risk Management with focus on three key elements, viz.,

(1) Risk Assessment- detailed study of threats and vulnerability and resultant exposure to various risks.
(2) Risk Management and Monitoring- the probability of risk assumption is estimated with available data and information.
(3) Risk Mitigation- Measures adopted to mitigate risk by the Company.

7. RISK FACTORS

The objectives of the Company are subject to both external and internal risks that are enumerated below:-

(a) <u>External Risk Factors</u>

- **Economic Environment and Market conditions**
- **Political Environment-**
  Any adverse change in the political environment of the country, government policies etc can have an impact in growth strategies of the company.

- **Competition**
- **Revenue Concentration and liquidity aspects-**
  Each business area of products such as pumps, turbines, motors, generators, switchgears and turnkey projects has specific aspects on profitability and liquidity. The risks are therefore associated on each business segment contributing to total revenue, profitability and liquidity. Since the projects have inherent longer time-frame and milestone payment requirements, they carry higher risks for profitability and liquidity.

- **Inflation and Cost structure-**
  Inflation is inherent in any business and thereby there is a tendency of costs going higher. Further, the project business, due to its inherent longer time- frame, as much higher risks for inflation and resultant increase in costs.

- **Technology Obsolescence –**
  The Company strongly believes that technological obsolescence is a practical reality.

Technological obsolescence is evaluated on a continual basis and the necessary investments are made to bring in the best of the prevailing technology.

- **Legal –**
  Legal risk is the risk in which the Company is exposed to legal action. As the Company is governed by various laws and the Company has to do its business within four walls of law, the Company is exposed to legal risk.

- **Fluctuations in Foreign Exchange-**
  The Company has limited currency exposure in case of sales, purchases and other expenses. It has natural hedge to some extent. However, beyond the natural hedge, the risk can be measured through the net open position i.e. the difference between un-hedged outstanding receipt and payments. The risk can be controlled by a mechanism of "Stop Loss" which means the Company goes for hedging (forward booking) on open position when actual exchange rate reaches a particular level as compared to transacted rate.

(b) <u>Internal Risk Factors</u>

- Project Execution
- Contractual Compliance
- Operational Efficiency
- Hurdles in optimum use of resources
- Quality Assurance
- Environmental Management
- Human Resource Management
- Culture and values

8. ASSESSMENT OF RISK

Management's responsibility, as delegated by the Board, is to operationalize the Risk Management Program and ensure that formal procedures are put in place to identify and define risk with input from representatives across the businesses.

Measurement of risk is completed considering both quantitative and qualitative means using the likelihood and impact criteria as developed by Management and as reviewed by the Board.

The Board shall undertake assessment of risk periodically basis according to the process mentioned hereunder:

Based on the risk factors, KCL's Board has developed a set of risk indicators for risk assessment under this policy. The list of indicators, include three types of indicators:

- **Key Risk Indicators (KRIs)**, under this indicator the Board shall monitor identified risk exposures over time or the possibility of future adverse impact.
- **Key Performance Indicators (KPIs),** Board shall evaluate the success of an activity.
- **Key Control Indicators (KCIs),** Board shall provide information on the extent to which a given control is meeting its intended objectives.

This methodology for assessing risk, is based on a risk scoring mechanism for probability and impact and a set of risk indicators to guide risk taking for KCL operations within the overall risk factors.

9. MITIGATION OF RISK

This step involves selecting and formulating risk treatment options. Several miitigation strategies shall be considered by KCL when monitoring risk:

- **Avoid Risk:** Avoid the risk with specific measures such as deciding not to start or continue with the activity or remove the risk source or exposure to it.
- **Accept Risk:** Acknowledge the existence of a particular risk and make a deliberate decision to accept it without engaging in special efforts to control it.
- **Watch Risk:** Monitor the environment for changes that affect the nature and/or the impact of risk and prepare but do not act for now *(passive).*
- **Control/Reduce Risk:** Proactively implement action to minimize the impact or likelihood of the risk (e.g. by adjusting program requirements, funding or schedule) *(active).*
- **Transfer Risk:** Transfer the risk to another stakeholder with specific measures (e.g. sharing the risk through insurance, transferring the risk to partners whose risk assessment allow them to carry out the objectives).

Risk responses are then identified depending on the risk treatment option chosen. They can be:

- **Preventive** or aiming to prevent the risk from occurring or diminish the likelihood of occurring (Control/ Reduce Risk).
- **Detective** or aiming to inform risk assessment on early signals of evidence where the risk has materialized (Watch/Monitor risk).
- **Responsive** to diminish the severity of the consequences should the risk materialize.

Note: The Board may adopt any other method to minimize or mitigate the risk.

10. RESPONSIBILITY FOR RISK MANAGEMENT

Generally every staff member of the Organization is responsible for the effective management of risk including the identification of potential risks. Management is responsible for the development of risk mitigation plans and the implementation of risk reduction strategies. Risk management processes should be integrated with other planning processes and management activities.

11. COMPLIANCE AND CONTROL

All the Senior Executives under the guidance of the Chairman and Board of Directors has the responsibility for over viewing management's processes and results in identifying, assessing and monitoring risk associated with Organisation's business operations and the implementation and maintenance of policies and control procedures to give adequate protection against key risk. In doing so, the Senior Executive considers and assesses the appropriateness and effectiveness of management information and other systems of internal control, encompassing review of any external agency in this regards and action taken or proposed resulting from those reports.

12. AMENDMENT

This policy may be amended subject to the approval of Board of Directors, from time to time in line with the business requirement of the Company or any statutory enactment or amendment thereto.

13. DISCLAIMER CLAUSE

The Management cautions that the risks outlined above are not exhaustive and are for information purposes only. Management is not an expert in assessment of risk factors, risk mitigation measures and management's perception of risks. Readers are therefore requested to exercise their own judgment in assessing various risks associated with the Company.

For KALPA COMMERCIAL LIMITED

MUKUL JINDAL
DIRECTOR
(DIN- 07229720)