

RISK MANAGEMENT POLICY

The Board of Directors (“**Board**”) of Capillary Technologies India Limited at its meeting held on November 20, 2021 has approved and adopted the Risk Management Policy (“**Policy**”) of the Company. The Policy shall become effective from the date of its adoption by the Board i.e. November 20, 2021.

1. Preamble:

This is in compliance with Regulation 17 (9) (b) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”) and Section 134 (3) (n) of the Companies Act, 2013 which requires the Company to develop and implement a Risk Management Policy. This Policy is applicable to all the functions, departments and geographical locations of the Company. The purpose of this Policy is to define, design and implement a risk management framework across the Company to identify, manage, monitor and minimize risks. Aligned to this purpose is to identify potential events that may affect the Company, to manage the risk within the risk appetite and to provide reasonable assurance regarding the achievement of the Company’s objectives. This will present a wide approach to ensure that key aspects of risks that have a wide impact are considered in its conduct of business.

Risk is an event which can prevent, hinder or fail to further or otherwise obstruct the enterprise in achieving its objectives. A business risk is the threat that an event or action will adversely affect an enterprise’s ability to maximize stakeholder value and to achieve its business objectives. Risk can cause financial disadvantage, for example, additional costs or loss of funds or assets. It can result in damage, loss of value and /or loss of an opportunity to enhance the enterprise operations or activities. Risk is the product of probability of occurrence of an event and the financial impact of such occurrence to an enterprise.

2. Objective

The objective of this Policy is to manage the risks involved in all activities of the Company, to maximize opportunities and minimize adversity. This Policy is intended



to assist in decision making processes that will minimize potential losses, improve the management of uncertainty and the approach to new opportunities, thereby helping the Company to achieve its objectives. The objectives of the Policy can be summarized as follows:

- (a) To safeguard the Company's and its subsidiaries' / joint ventures' property, interests, and interest of all stakeholders;
- (b) To manage risks with an institutionalized framework and consistently achieve desired outcomes;
- (c) To protect and enhance the corporate governance;
- (d) To implement a process to identify potential / emerging risks;
- (e) To implement appropriate risk management initiatives, controls, incident monitoring, reviews and continuous improvement initiatives;
- (f) Minimize undesirable outcomes arising out of potential risks; and
- (g) To align and integrate views of risk across the enterprise.

3. Role of board:

The Board of Directors (“**Board**”) of the Company oversee the development of Risk Management Policy and the establishment, implementation and monitoring of the Company's risk management system, in accordance with the policy. Risk Management being one of the key functions of Board where responsibility is cast upon the Board to:

- review and guide Risk Policy
- ensure that appropriate systems of control are in place, in particular, systems for risk management
- ensure that, while rightly encouraging positive thinking, it does not result in over optimism that either leads to significant risks not being recognized or exposes the company to excessive risk.
- have ability to ‘step back’ to assist executive management by challenging the assumptions underlying risk appetite.



The Board and the management of the Company will take a pro-active approach to risk management, ensuring that a Company-wide system is in place which addresses all material, internal and external risk factors facing the Company, which include:

- (a) Financial;
- (b) Legal and Regulatory;
- (c) Operational;
- (d) Sectoral;
- (e) Information and Cyber Security; and
- (d) Commercial risks, including risks related to sustainability (Health, Safety and Environment).

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

The continued successful safeguarding, maintenance and expansion of the Company's businesses requires a comprehensive approach to risk management. It is the policy of the Company to identify, assess, control and monitor all risks that the business may incur, to ensure that the risks are appropriate in relation to the scale and for the benefit of the associated project, business or practice and to ensure that no individual risk or combination of risks result in a likely material impact to the financial performance, brand, reputation or the existence of the Company.

Fundamental values of the Company include respect for its employees, customers and shareholders and integrity in all its operations and activities. By acknowledging that risk and control are part of everyone's job, and by incorporating risk management into the Company's daily business practices, the Company will be better equipped to achieve strategic objectives, whilst maintaining the highest ethical standards.

All employees of the Company are expected to demonstrate the highest ethical standards of behavior in development of strategy and pursuit of objectives.



Individually and collectively the Company's employees shall consider all forms of risk in decision-making.

4. Risk management framework:

The Board is responsible for establishing and implementing a system for identifying, assessing, monitoring and managing material risk throughout the Company.

The Company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are to be continuously benchmarked with international best practices.

At present, it is the responsibility of the Board to assess the adequacy of the Company's internal control systems and ensure that its financial affairs comply with applicable laws and regulations and professional practices. Regular consideration is given to all these matters by the Board. The Company has in place an internal control framework to assist the Board in identifying, assessing, monitoring and managing risk. The framework can be described under the following headings:

- Continuous Disclosure/ Financial Reporting
- Operations Review
- Investment Appraisal

The Company's internal control system is monitored by the Board and assessed regularly to ensure effectiveness and relevance to the Company's current and future operations. Procedures have been put into place to ensure the Chief Financial Officer/ Whole-time Director provide a statement in writing to the Board that the integrity of the financial statements/reports is founded on a sound system of risk management and internal compliance and control and that the Company's risk management and internal compliance and control system is operating efficiently and effectively.

5. Components of a sound risk management system:



The risk management system in the Company should have the following key features:

- (a) Active board of directors, committee and senior management oversight;
- (b) Appropriate policies, procedures and limits;
- (c) Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- (d) Appropriate management information systems at the business level;
- (e) Comprehensive internal controls in accordance with current regulations; and
- (f) A risk culture and communication framework.

6. Risk governance:

An organization's ability to conduct effective risk management is dependent upon having an appropriate risk governance structure and well-defined roles and responsibilities. Risk governance signifies the way the business and affairs of an entity are directed and managed by its Board and executive management.

7. Risk management process:

Conscious that no entrepreneurial activity can be undertaken without assumption of risks and associated profit opportunities, the Company operates on a risk management process /framework aimed at minimization of identifiable risks after evaluation so as to enable management to take informed decisions.

Broad outline of the framework is as follows:

- a) **Risk Identification:** Management identifies potential events that may positively or negatively affect the Company's ability to implement its strategy and achieve its objectives and performance goals. Potentially, negative events represent risks and are assigned a unique identifier. The identification process is carried out in such a way that an expansive risk identification covering operations and support functions are put together and dealt with.



- b) **Root Cause Analysis:** Undertaken on a consultative basis, root cause analysis enables tracing the reasons / drivers for existence of a risk element and helps developing appropriate mitigation action.

- c) **Risk Scoring:** Management considers qualitative and quantitative methods to evaluate the likelihood and impact of identified risk elements. Likelihood of occurrence of a risk element within a finite time is scored based on polled opinion or from analysis of event logs drawn from the past. Impact is measured based on a risk element’s potential impact on cost, revenue, profit etc. should the risk element materialize. The composite score of impact and likelihood are tabulated in an orderly fashion and the table is known as a ‘Risk Register’. The Company has assigned quantifiable values to each risk element based on the “impact” and “likelihood” of the occurrence of the risk on a scale of 1 to 3 as follows.

Impact	Score	Likelihood
Minor	1	Low
Moderate	2	Medium
Significant	3	High

The resultant “action required” is derived based on the combined effect of impact & likelihood and is quantified as per the summary below.

- d) **Risk Categorization:**
 The identified risks are further grouped in to (a) preventable; (b) strategic; and (c) external categories to homogenize risks.
 - (i) Preventable risks are largely internal to the Company and are operational in nature. The endeavour is to reduce /eliminate the events in this category as they are controllable. Standard operating procedures and audit plans are relied upon to monitor and control such internal operational risks that are preventable.

 - (ii) Strategy risks are voluntarily assumed risks by the senior management in order to generate superior returns / market share



from its strategy. Approaches to strategy risk is 'accept'/'share', backed by a risk-management system designed to reduce the probability that the assumed risks actually materialize and to improve the Company's ability to manage or contain the risk events should they occur.

- (iii) External risks arise from events beyond organization's influence or control. They generally arise from natural disasters, political events and major macroeconomic shifts. Management regularly endeavours to focus on their identification and impact mitigation through 'avoid'/'reduce' approach that includes measures like business continuity plan / disaster recovery management plan / specific loss insurance / policy advocacy etc.

e) **Risk Prioritization:**

Based on the composite scores, risks are prioritized for mitigation actions and reporting.

f) **Risk Monitoring:**

It is designed to assess on an ongoing basis, the functioning of risk management components and the quality of performance over time. Staff members are encouraged to carry out assessments throughout the year.

g) **Risk Reporting:**

Periodically, key risks are reported to the Board or risk management committee with causes and mitigation actions undertaken/ proposed to be undertaken.

The internal auditor carries out reviews of the various systems of the Company using a risk based audit methodology. The internal auditor is charged with the responsibility for completing the agreed program of independent reviews of the major risk areas and is responsible to the audit committee which reviews the report of the internal auditors on a quarterly basis.

The statutory auditor carries out reviews of the Company's internal control systems to obtain reasonable assurance to state whether an adequate internal



financial controls system was maintained and whether such internal financial controls system operated effectively in the company in all material respects with respect to financial reporting.

On regular periodic basis, the Board will, on the advice of the audit committee, receive the certification provided by the CEO and the CFO, on the effectiveness, in all material respects, of the risk management and internal control system in relation to material business risks.

The Board shall include a statement indicating development and implementation of a risk management policy for the Company including identification of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Company.

h) Risk Management Measures adopted in general by the Company:

The Company has adopted various measures to mitigate the risk arising out of various areas described above, including but not limited to the following:

- (i) A well-defined organization structure;
- (ii) Defined flow of information to avoid any conflict or communication gap;
- (iii) Hierarchical support personnel to avoid work interruption in absence/ non-availability of functional heads;
- (iv) Discussion and implementation on financial planning with detailed business plans;
- (v) Detailed discussion and analysis of periodic budgets;
- (vi) Employees training and development programs;
- (vii) Internal control systems to detect, resolve and avoid any frauds;
- (viii) Systems for assessment of creditworthiness of existing and potential contractors/subcontractors/ dealers/vendors/ end-users;
- (ix) Redressal of grievances by negotiations, conciliation and arbitration; and
- (x) Defined recruitment policy.



Business Continuity Plan

The Management in consultation with committees will adopt Business Continuity Plan/ Policy mainly to focus on sustaining the organization during and after disruption. The said policy shall ensure that the our Business Continuity Management arrangements are developed and implemented in a safe, prioritized and structured manner with the commitment of the senior management team.

Communication and Consultation

Appropriate communication and consultation with internal and external stakeholders should occur at each stage of the risk management process as well as on the process as a whole.

Risk Mitigation:

Risk needs to be prioritized in the process of analysis and evaluation for their mitigation based on probability, impact and severity. Further, risk proximity (i.e. time window when the risks can surface), complexity of the mitigation plan and funding required are factors that can be considered for prioritizing the mitigation action. Accordingly, the risk can be avoided, reduced, transferred or shared by the Company as follows:

- i. **Risk Avoidance:** The situation which gives rise to the risk can be avoided by excluding the activities or conditions that gives rise to risk. This approach is recommended for the risks with high severity.
- ii. **Risk Reduction:** For the risks which cannot be avoided, measures to reduce either the impact of risk or probability of occurrence can be deployed.
- iii. **Risk Transfer:** Transfer of the total or partial risk to third party, e.g. client, third party vendor, sub-contractor, insurance company, etc.
- iv. **Risk Acceptance:** The risks with low severity may be accepted in cases where the cost of risk mitigation would be more than the risk exposure.



Role of Risk Management Committee

Scope and terms of reference of the Risk Management Committee:

- to review, assess and formulate the risk management system and policy of our Company from time to time and recommend for amendment or modification thereof, which shall include:
 - A framework for identification of internal and external risks specifically faced by our Company, in particular including financial, operational, sectoral, sustainability (particularly, environment, social and governance related risks), information, cyber security risks or any other risk as may be determined by the committee;
 - Measures for risk mitigation including systems and processes for internal control of identified risks; and
 - Business continuity plan;
- to ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of our Company;
- to monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- to periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
- to keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- to review the appointment, removal and terms of remuneration of the chief risk officer (if any) shall be subject to review by the Risk Management Committee;
- to implement and monitor policies and/or processes for ensuring cyber security;
- to frame, devise and monitor risk management plan and policy of our Company;
- to review and recommend potential risk involved in any new business plans and processes;
- to coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the Board of Directors; and



- any other similar or other functions as may be laid down by the Board from time to time and/ or as may be required under applicable law.

Audit Committee:

A strong and independent Internal Audit Function carries out risk focused audits across all businesses, enabling identification of areas where risk management processes may need to be improved. The Audit Committee of the Board reviews Internal Audit findings and provides strategic guidance on internal controls. It also monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.

Role of Stakeholders:

The Company considers the reasonable expectations of stakeholders particularly with a view to preserving the Company's reputation and success of its business. Factors which affect the Company's continued good standing are included in the Company's risk profile.

Continuous Improvement:

The Company's risk management system is always evolving. It is an ongoing process and it is recognised that the level and extent of the risk management system will evolve commensurate with the development and growth of the Company's activities. The risk management system is a "living" system and the documentation that supports it will be regularly reviewed and updated in order to keep current with Company circumstances.

In the event of any conflict between the Companies Act, 2013 or the SEBI Listing Regulations or any other statutory enactments and the provisions of this Policy, the Regulations shall prevail over this Policy. Any subsequent amendment/modification in the SEBI Listing Regulations, in this regard shall automatically apply to this policy.

