RISK MANAGEMENT POLICY

RIKALP CAPITAL PRIVATE LIMITED

(FORMERLY KNOWN AS SETHI SECURITIES PRIVATE LIMITED)

CIN NO

U65993WB1997PTC083506

REGISTERED OFFICE

EAST INDIA HOUSE 20B ABDUL HAMID STREET,

5TH FLOOR, ROOM NO. 5A-1, ESPLANADE,

KOLKATA, WEST BENGAL, INDIA 700069

CORPORATE OFFICE

PLOT NO. 42, SECOND FLOOR, MONIKA VIHAR,

MANYAWAS, MANSAROVAR, JAIPUR,

RAJASTHAN, INDIA 302020

INTRODUCTION AND BACKGROUND

Risk in the context of business is defined as probability of liability, loss or any other negative occurrence that may be caused by external or internal vulnerabilities. Generally, various risks can be managed through preemptive action. For proper management of risks, the risks need to be identified and proper mitigation mechanisms need to put in place.

Rikalp Capital Private Limited (herein after referred to as "**the Company**"), being a financial intermediary, is exposed to various risks. Accordingly, the Company has adopted this Risk Management Policy ("Policy") to ensure that such risks are understood, monitored and managed appropriately.

- **Effective Date-**This Policy shall be effective from the date of this policy.
- **Review of Policy-**This Policy shall be reviewed as and when required by the applicable rules and regulations.
- **Policy Approval-** This Policy and any significant changes therein shall be approved by the Board of Directors of the Company or the Risk Management Committee to whom an authority may be delegated by the Board.

REGULATORY REQUIREMENT

In accordance with the Reserve Bank of India's guidelines outlined in the Master Direction for Non-Banking Financial Companies (NBFCs) - Non-Systemically Important Non-Deposit Taking Companies (RBI Directions) issued on September 1, 2016, as well as the Scale-Based Regulations issued on October 19, 2023 and any subsequent amendments, each NBFC's Board is required to approve a Risk Management Policy. This policy should be relevant to the company's operations and should consider various factors, including the identification of both internal and external risks specific to the listed entity. These risks encompass financial, operational, sectoral, sustainability, information, cybersecurity risks, and any other risks as determined by the Committee. Keeping in view the RBI Guidelines as cited above, the following internal guiding principle are therefore laid out by the Board of Directors of Rikalp Capital Private Limited (the "Company"). This policy should always be read in conjunction with RBI guidelines, directives, circulars, and instructions.

OBJECTIVES

The aim of this policy is to deal with unforeseen and unintentional losses that may affect the company's human resources and financial assets, all while avoiding unnecessary constraints on activities that support the company's mission and objectives. The company has implemented robust risk management systems to handle various risk related issues. Effectively managing risk is crucial for the ongoing development of the company.

TYPES OF RISKS AND THEIR MANAGEMENT

1. CREDIT RISK

Credit Risk may be defined as the risk of default that may arise in event of the Company's borrower, or counter party, failing to meet its payment obligations regarding the terms agreed with the Company. It includes both uncertainties involved in repayment of the Company's dues and repayment of dues on time.

The Credit Risk can result from:

a) Default due to over-indebtedness or business failure;

b) Deficiencies in credit appraisal and underwriting mechanism;

c) Absence of defined policy parameters;

d) Exposure to activities with a high probability of variation in earnings;

e) Credit Concentration Risk, arising out of concentrated exposure to a particular geographical location/territory or to an activity in which a large group of borrowers are engaged in, vulnerable to external events;

- **Management of Credit Risk-** All credit risk related aspects will be governed by specific Product Credit Policies (Credit Policy). The Credit Policy will outline types of products, customer categories, target customer profile, credit approval process, exposure limits etc. The Credit Policy's shall be approved by the Board of Directors OR by the official(s) Or group of officials authorized by the Board of Directors.

  The authority matrix for approval of credit limits shall be approved by the Board of Directors OR by the official(s) OR group of officials authorized by the Board of Directors.

2. MARKET AND LIQUIDITY RISK

Liquidity Risk may arise largely due to maturity mismatch associated with assets and liabilities of the Company. Liquidity risk stems from the inability of the company to fund increase in assets, manage unplanned changes in funding sources and meet financial commitments when required.

Due to the higher reliance on external sources of funds, the Company is exposed to various funding and liquidity risks comprising:

a) **Funding Concentration on Risk**—Concentration of a single source of funds exposes the Company to an inability to raise funds in a planned and timely manner and resort to high cost emergency sources of funds. Further, concentration no funding sources can also result in a skewed maturity profile of liabilities and resultant Asset-Liability mismatch.

b) **Asset-Liability Mismatch**—A skewed asset-liability profile can lead to severe liquidity shortfall and result in significantly higher costs of funds; especially so during times of crises.

c) **Interest Rate risk**—Interest Rate risk comprises the risk of increase in cost of funds due to an overall increase in the interest rates economy as well as sharp movements in interest rates across maturity profiles of the liabilities. It refers to loss in earnings, due to movement in interest rates. Interest rate risk is largely in the form of Re-Pricing Risk, arising from timing differences in the maturity and re-pricing of its assets and liabilities.

d) **Leverage Risk—** A high degree of leverage can severely impact the liquidity profile of the Company and lead to stress while servicing its liabilities.

3. OPERATIONAL RISK

Operational Risk is risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

a) Operational Risk is related the following aspects:

   i) **Process Related-** Execution, Delivery, Process Management, Business Disruption, Systems Failure etc.;

   ii) **Conduct Related-** Clients, Products, Business Practices Employment Practices, Workplace Internal Theft, Fraud etc.;

   iii) **External Related-** External Theft/Fraud, Damage to Physical Assets etc.

b) Key Operational Risks are as under:

   i) **Business Practices and Fraud Risk**: Inappropriate business practices or market conduct or fraudulent activities.

   - **Mitigation of Risk**- The risk will be mitigated through standardized & efficient operational processes, proper maker- checker framework, uniform checklists and review of the portfolio, various policies & processes from time to time. The fraud-related risks will be mitigated through proper field verifications, profile checks etc.

ii) **Business Selection and Credit Concentration Risk**: Inadequate due diligence; non-adherence to credit, market, operational risk policies and limits.

- **Mitigation of Risk**- The Company will endeavor to spread the business across different customer profiles, programs and product segment. The business mix would be governed by stipulated distribution as provided in the Credit Policy which would be reviewed periodically. The Company will comply with the Credit Concentration limits as prescribed by the Reserve Bank of India

iii) **In adequate Infrastructure/ Capacity**: Inability to support business growth due to deficiencies in the infrastructure.

- **Mitigation of Risk-** The Company, while formulating its business plan, will duly factor the additional infrastructure, manpower, operational support required to meet the business demand.

iv) **Financial Integrity:** Incorrect books, records and reporting.

- **Mitigation of Risk-** The Company will engage reputed audit firm for statutory audit. Further, it will put in place a robust internal audit framework commensurate with its size, complexity and functions. The Board/ Audit Committee of the Company will periodically review functioning of the audit framework and action taken based on their feedback.

v) **Reputational and Regulatory risks due to non-Compliance with the Regulatory, Licensing & Statutory requirements-** Failure to comply with the applicable laws/ regulations in letter and spirit.

- **Mitigation of Risk-** Designated Compliance Officer (CO) will ensure that all regulatory guidelines are disseminated across the Company and are adhered to. The CO will also have the responsibility of coordinating the regulatory audits and correspondence with the regulatory authorities.

  A senior level officer as the Principal Officer (PO) will be appointed by the Board of Directors of the Company for overseeing and managing the Know Your Customer (KYC) & Anti-Money Laundering (AML) policies and processes. The PO will be responsible for ensuring compliance, monitoring transactions, and sharing and reporting information as required under the law/regulations.

vi) **Legal Risk-** Legal risk is the risk of potential loss to an institution which is primarily caused by:

a) A defective transaction; or
b) A claim or counter claim being made or some other event occurring which results in a liability for the institution or other loss; or
c) Failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution; or
d) Change in law.

- **Mitigation of Risk-** To mitigate this risk, the Company shall have standardized agreement and documentation with its counterparties for various business purposes which shall be vetted by an internal or an external counsel.

vii) **Cyber and Information Security Risk:** Inappropriate safe guarding of customer or proprietary information assets; cyber-security.

- **Mitigation of Risk-**The Company put in place a robust Information Technology framework as prescribed by the RBI.

viii) **Risks due to lack of Continuity of Business:** Inability to continue business during a contingency event.

- **Mitigation of Risk-** The Company put in place a Disaster Recovery and Business Continuity Plan as prescribed by the RBI.

ix) **Human Resource Risk:** Inappropriate employment practices and workplace environment.

- **Mitigation of Risk-** The Company will have proper Human Resource Policy along with defined Roles & Responsibilities across the departments. Adequate employee reward and recognition systems will be put in place.

x) **Vendor Management Risk:** Risks not covered, Defective contracts, Poor practices.

- **Mitigation of Risk-** The Company will conduct reference check and background verification for each of the vendor engaged by it. It will ensure that all contracts are vetted by an internal or an external legal counsel.

Though occurrence of any of the above operational risks could be less, but impact in value terms could be significant.

4. REPUTATIONAL RISK

Reputational risk could be defined as the risk of potential loss to the Company's brand, reputation, earnings, capital or liquidity from any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Company's values and beliefs. This may also arise due to deterioration of its reputation and/or standing because of negative perceptions about it among its various stakeholders, *viz.,* its customers, employees, shareholders, suppliers and regulatory authorities.

It may arise when some incident leads to reputation damage due to various factors including mis-selling, adverse media campaign, unfair trade practices, regulatory action, liquidity issue, etc.

To manage this risk, the Company shall, inter alia, ensure the following:

a) All media communications would be handled by the dedicated team/authority.
b) Timely response to statutory/regulatory queries/requirements.
c) Regular training of the employees.
d) Response to the customers' queries and needs within committed turn-around time.
e) Quick remedy ablations to customer's/stakeholder's/media feedback (including social media).

POLICY

The company acknowledges that effective risk management is a fundamental catalyst for growth and an essential component in elevating corporate governance. Consequently, the Board has crafted the following Risk Management Policy:

a) Vigilance for All Risks: The company is committed to continuously identify and address both direct and indirect risks that may impact its operations.

b) Protecting Shareholders' Interests: We are dedicated to safeguarding the rights and values of our shareholders by establishing a well-structured Risk Management Framework.

c) Optimizing Risk Management Tools: We will carefully select, maintain, and enhance the tools and methods employed in risk management. These tools will provide valuable insights that inform and support investment decisions throughout the entire organization.

RISK MANAGEMENT COMMITTEE

Having established a framework to manage risk it is imperative that it be monitored religiously. The Company would monitor the same by conducting adequate risk reporting to its various committees and the Board. The reporting would be done by members of the Risk Management Committee who shall be the directors or senior management of the Company.

REPORTING

The Company's reporting process will adapt in response to changing requirements and the evolving best practices in risk management. On an annual basis, the reporting content will encompass a risk profile that outlines the most critical risks confronting the Company. For each of these risks, the reporting will include the following:

a) A clear description of the risk.
b) Comprehensive documentation of the essential activities and controls implemented to mitigate and manage the risk.
c) Identification of any remaining or residual risk.
d) Reference to any action plans in place to rectify any vulnerabilities or weaknesses in risk management.
e) The formulation of a risk appetite statement for each key strategic risk.

REVIEW

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 and shall be reviewed at least every year to ensure it meets the requirements of legislation and the needs of organization.