

**Board of Directors**

B.D.Narang

Director

M. Yugandhar

Director

Jyothi Prasad

Director

V. Mahesh

Director

**Company Secretary**

Meenal Talesara

**Joint Statutory Auditors****B S R & Associates, LLP**

Chartered Accountants

Reliance Humsafar, IV Floor

Road No.11, Banjara Hills

Hyderabad - 500 034, India

**Lalith Prasad and Co.**

Chartered Accountant

402, Golden Green Apts.

6-3-542/1, Erram Manzil Colony

Punjagutta, Hyderabad - 500 082

**Bankers**

Andhra Bank

Axis Bank Limited

Bank of Baroda

Bank of India

Bank of Maharashtra

Canara Bank

Central Bank of India

Dena Bank

Doha Bank QSC

HDFC Bank Limited

IDBI Bank Limited

Indian Overseas Bank

IndusInd Bank Limited

Karur Vysya Bank Limited

Kotak Mahindra Bank Limited

Oriental Bank of Commerce

Punjab National Bank

SIDBI

South Indian Bank

State Bank of Bikaner and Jaipur

State Bank of Hyderabad

State Bank of India

State Bank of Maritius

State Bank of Patiala

The Jammu & Kashmir Bank Limited

The Lakshmi Vilas Bank Limited

Union Bank of India

Vijaya Bank

**Registered Office:**

Building No.7, Office No.762

6th Floor, Solitaire Park

Andheri (East), Mumbai - 400 093

Maharashtra

## DIRECTORS' REPORT

To the members of,

**Karvy Financial Services Limited**

Your Directors have pleasure in presenting the 15th Annual Report and the audited accounts for the financial year ended March 31, 2016.

### 1. FINANCIAL RESULTS

(Amount in Rs.Lakh)

Particulars	FY 2015-2016	FY 2014 – 2015
Gross Income	35,203.66	35,797.88
Operating expenses	1,831.10	1,995.10
Provisions and contingencies	870.25	117.88
<b>Profit Before Tax</b>	<b>1,808.75</b>	<b>5,880.45</b>
Provision for Tax	6,48.67	2,020.00
<b>Net Profit After Tax</b>	<b>1,160.08</b>	<b>3,860.45</b>

### 2. REVIEW OF OPERATIONS

The year 2015-16 was one of both challenges and consolidation for your Company. The systemic challenges included economic factors like a relatively slow recovery of the economy, which resulted in pressure on margins and profitability. This has impacted almost all banks and NBFCs. However, the positive sentiment brought about by the good monsoon and the visible trend of economic growth provides a positive outlook for the coming year.

Your Directors have adopted a conservative approach towards provisioning for non-performing assets, and, therefore, due to the impact of higher provisioning in the year under review the company's income stood at Rs. 35203.65 lakh, with a profit after tax of Rs. 1160.08 lakh as compared to an income of Rs. 35797.87 lakh, and a profit after tax of Rs. 3,860.44 lakh, in the previous year. Your directors are of the opinion that despite challenges ahead, your company would continue to grow well in future.

### 3. DIVIDEND:

During the year under review, your company has paid a dividend of 11% on Compulsorily Convertible Cumulative Preference shares (CCCPS) aggregating to Rs. 160.42 lakh.

In view of the conversion of CCCPS into equity shares, the interim dividend on preference shares may please be treated as final dividend.

In view of the reduced profit after tax for the year, the Directors do not recommend any dividend on the equity shares of the Company.

### 4. RESERVES AND SURPLUS:

Your directors propose to transfer Rs. 232.02 lakhs to the Statutory Reserve Fund in accordance with the provisions of Section 45-IC of Reserve Bank of India Act, 1934 and retain Rs. 2,291 lakh in the profit and loss account of the company.

### 5. OUTLOOK & INITIATIVE:

The Indian economy has exhibited a steady growth despite a volatile and subdued global environment in FY 2015-16. The outlook for FY 2016-17 is positive and optimistic as a result of an above average monsoon.

Your directors are confident that the future performance of your company will be excellent.

The company is in an advanced stage of discussion with an investor and is in the process of executing a business transfer agreement (BTA) as part of its restructuring plan. The Company intends to map out its areas of focus for the future by identifying new opportunities which build on the Company's strengths and resources. The operations of the Company will continue under the active supervision of the Board and your directors shall actively look out for other opportunities that may arise from time to time. Your company is also endeavouring to identify a new Chief Executive Officer.

Apart from the above, there are no other material changes and commitments for the company to report, that can be considered to affect the financial position of the company after 31st March, 2016 and upto the date of signing of this Report.

### 6. LISTING OF DEBENTURES

During the financial year 2015-16, the company has not issued any new Non-Convertible Debentures. The outstanding amount as on 31<sup>st</sup> March, 2016, for the Secured Redeemable Non-Convertible Debentures (Structured Products) under various series issued in previous years stands at Rs. 2,080 lakh while the outstanding amount for 15.60% Unsecured Redeemable Non-Convertible Debentures stands at Rs. 3,000 lakh. The company's debentures are admitted to dealing on the Bombay Stock Exchange Limited (BSE) in the list of securities of F GROUP - DEBT INSTRUMENTS. The details of the debenture trustee are as follows: **Axis Trustee Services Limited**, 2nd Floor - E, Axis House, Bombay Dyeing Mills Compound, Pandurang Budhakar Marg, Worli, Mumbai – 400 025; Tel: +91 022 6226 0074 / 75; Fax: 91 022 24254200; Contact Person: Mr. Jayendra P Shetty.

## DIRECTORS' REPORT

### 7. NETWORTH AND CAPITAL ADEQUACY RATIO

The Company's net worth as on March 31, 2016, stood at Rs. 42,462 lakh and the Company's Capital to Risk Assets Ratio (CRAR), calculated is in line with the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 ("RBI Directions"), which stood at 17.93 per cent, well above the regulatory minimum of 15 per cent. Your Company's asset size stands at Rs. 249,212 lakh. The Company has received a certificate from Lalith Prasad & Co., Chartered Accountants, Joint Statutory Auditors of the Company, pursuant to Non Banking Financial Companies Auditors' Report (Reserve Bank) Directions, 2008, confirming compliance of the conditions with respect to Systemically Important Non-Deposit taking Non-Banking Financial Companies.

### 8. CREDIT RATING

Your Company has obtained credit ratings from ICRA for its long term borrowings, short term borrowings and Non Convertible Debentures, which are as under:

Bank Loan Rating:	[ICRA]A+(SO)
Short Term Rating:	[ICRA]A1+(SO)
Secured Redeemable Non-Convertible Debentures:	[ICRA]A
Secured Redeemable Non Convertible Debentures (Principal Protected):	PP-MLD [ICRA]A

### 9. REGULATORY UPDATE

#### i. FIXED DEPOSITS

Your Company is registered with Reserve Bank of India (RBI), as a non-deposit accepting NBFC ("NBFC-ND") under Section 45-IA of the RBI Act, 1934. During the year, your company has ensured compliance with the NBFC (Non Deposit Accepting or Holding) Companies Prudential norms (Reserve Bank) Directions, 2007 and Section 73 and 74 of the Companies Act, 2013, and the rules framed thereunder.

The Company has neither accepted nor renewed any fixed deposits during the year. There are no unclaimed deposits, unclaimed / unpaid interest, refunds due to the deposit holders or to be deposited to the Investor Education and Protection Fund as on March 31, 2016.

#### ii. MONITORING OF FRAUDS

The RBI, vide its circular DNBS.PD.CC. No. 256 /03.10.042 / 2011-12, dated March 2, 2012 has extended the monitoring of frauds in deposit-taking NBFCs to include all NBFCs-ND-SI with effect from March 2, 2012.

Your Company has not identified any case of fraud; however the cases of attempted frauds have been duly placed before the Board of Directors and the audit committee for their review in compliance with the said circular.

#### iii. RBI COMPLIANCES

Your Company has complied with all the applicable regulations prescribed by the Reserve Bank of India from time to time.

For the quarter ending March 31<sup>st</sup>, 2016 as well as the submission of audited financial statements for the year ending 31<sup>st</sup> March, 2016, the company has been granted extension of time by the RBI till July 31<sup>st</sup>, 2016 and your company is endeavouring to ensure submission immediately. In view of the detailed review of the operations of the Company ahead of its endeavour to raise fresh equity capital, there has been an unavoidable delay during the year under review in the process of regular filing of returns with RBI. The audited financial statements for the year ended 31<sup>st</sup> March, 2016, will be filed in the first week of August, 2016. The Company has always had a record of timely compliance.

### 9. MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

A Management's Discussion and Analysis Report for the year under review, as stipulated under the corporate governance guidelines prescribed by Reserve Bank of India vide its circular no. DNBR (PD) CC.No.002/03.10.001/2014-15 dated 10<sup>th</sup> November, 2014 and amendments thereof, is given as **ANNEXURE – I** to this report.

### 10. CHANGE IN THE NATURE OF BUSINESS

There are no changes in the nature of the company's business during the year under review. Your company continued to offer loans against property, loans against securities, loans against gold and financing of small commercial vehicles, during the year under review.

## DIRECTORS' REPORT

### 11. BOARD MEETINGS

The Board of Directors of the company met 5 times during financial year under review. The meetings were held on 19<sup>th</sup> May 2015, 30<sup>th</sup> June 2015, 26<sup>th</sup> Sept 2015, 30<sup>th</sup> Dec 2015 and 30<sup>th</sup> March 2016. The intervening gap between the meetings was within the period prescribed under the Companies Act, 2013.

S.No.	Name of the Director & Designation	Board Meetings		
		No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance
1.	Mr. Yugandhar Meka, Non-Executive Director	5	5	100%
2.	Mr. Bhagwan Dass Narang, Independent Director	5	5	100%
3.	Ms. Jyothi Prasad, Independent Director	4	4	100%
4.	Mr. V. Mahesh, Non-Executive Director	5	5	100%
5.	Mr. Amit Saxena, Managing Director and CEO*	5	5	100%

S.No.	Name of the Director & Designation	Audit Committee Meetings			Nomination & Remuneration Committee Meetings		
		No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance	No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance
1.	Mr. Bhagwan Dass Narang, Independent Director	2	2	100%	2	2	100%
2.	Ms. Jyothi Prasad, Independent Director	2	2	100%	2	2	100%
3.	Mr. Yugandhar Meka, Non-Executive Director	2	2	100%	NA	NA	NA
4.	Mr. V. Mahesh, Non-Executive Director	NA	NA	NA	2	2	100%

S.No.	Name of the Director & Designation	Corporate Social Responsibility Committee Meetings		
		No. of Meetings which were entitled to attend	No. of Meetings attended	% of attendance
1.	Mr. Yugandhar Meka, Non-Executive Director	1	1	100%
2.	Mr. Bhagwan Dass Narang, Independent Director	1	1	100%
3.	Mr. Amit Saxena, Managing Director and CEO*	1	1	100%

\* Mr. Amit Saxena resigned from the office of Managing Director & CEO of the company w.e.f. 13th July, 2016

## DIRECTORS' REPORT

### 12. BOARD OF DIRECTORS AND KEY MANAGERIAL PERSONNEL:

During the year under review, Mr. Sanjeev Sherawat, resigned from the Board of the company with effect from 27.5.2015, consequent to ICICI Ventures disinvesting their stake in the parent Company. Mr. Amit Saxena Managing Director, CEO, and KMP was relieved from the services of the company on 13.7.2016, consequent to his resignation. Mr. G. Krishnahari was co-opted to the Board of directors of the company on 29.7.2016.

Mr. V. Mahesh, Director, retires by rotation, and, being eligible, has offered himself for reappointment at the ensuing general meeting of the company. Your Directors recommend his reappointment as a Director. The Board of Directors have, on 29.7.2016, elected Mr. B. D. Narang as the Non-executive Chairman of the Board of Directors of the company. The non-executive Directors of the company have no pecuniary relationship or transactions with the company, except to the extent of the sitting fee paid to them.

Mr. Abhishek Baxi, KMP and Chief Financial Officer, was also relieved from the services of the company, consequent to his resignation, on 14.7.2016. Your Board, as an interim measure, has requested two of its Members, Mr. V. Mahesh and Mr. G. Krishna Hari, to manage the day-to-day affairs of the company, till the company identifies a suitable CEO and CFO. Your Board is in the process of identifying the necessary KMPs, and are confident that the positions of CEO and CFO will be filled in by the end of November, or latest by the first half of December, 2016.

### 13. INDEPENDENT DIRECTORS DECLARATION

The Company has received the necessary declaration from each ID in accordance with the section 149(7) of Companies Act, 2013, that he/she meets the criteria of Independence as laid out in sub-section (6) of section 149 of the Companies Act, 2013.

### 14. AUDIT COMMITTEE

During the year under review, the Audit Committee was reconstituted in accordance with the provisions of Section 177 of the Companies Act, 2013. The reconstituted Committee has adopted a Charter for its functioning. The primary objective of the Committee is to monitor and provide effective supervision of the Management's financial reporting process, to ensure accurate and timely disclosures, with the highest levels of transparency, integrity and quality of financial reporting.

The composition of the committee as on March 31, 2016, is as under:

Name of Members	Category
Mr. B. D. Narang	Independent Director
Ms. Jyothi Prasad	Independent Director
Mr. M. Yugandhar	Non-Executive Director

All the recommendations made by the audit committee have been duly accepted by the Board. During the financial year, the committee has met two times viz., 30<sup>th</sup> June 2015 and 30<sup>th</sup> March 2016.

The Company has also established a vigil mechanism for the Directors and employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy. The audit committee of the Board oversees the functioning of the policy.

### 15. POLICY ON DIRECTORS' APPOINTMENT AND REMUNERATION:

The company has put in place a policy on the directors' appointment and remuneration in accordance with the matters provided under section 178(3) of the Companies Act, 2013.

The broad terms of reference of the nomination and remuneration committee are as given below:

- Periodically oversee an evaluation of the Board, and recommend desirable changes in Board size, composition, Committees structure and processes, and other aspects of the Board's functioning;
- Recommend new Board members in light of resignation of current members or a planned expansion of the Board;
- Review stockholder proposals relating to Board's composition and recommend an appropriate course of action;
- Review key corporate governance processes not specifically assigned to other committees, and recommend changes needed to ensure that the company is at best practice;
- formulate criteria for determining qualifications, positive attributes and independence of director and recommend to the Board a policy, relating to the remuneration for the directors, key managerial personnel and other employees;
- Review and recommend the compensation and variable pay for Executive Directors to the Board;
- Review the Company's ESOP Schemes and recommend changes as necessary; oversee administration of the ESOP Schemes including Grant Options to eligible employees, in consultation with management; and
- Perform other activities as requested by the Board of Directors or to address issues related to any significant subject within its term of reference.

## DIRECTORS' REPORT

### 16. DIRECTOR'S RESPONSIBILITY STATEMENT

In pursuance of section 134 (5) of the Companies Act, 2013, the Directors hereby confirm that:

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- the directors had prepared the annual accounts on a going concern basis;
- the Directors have laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and are operating effectively; and
- the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

### 17. EXTRACT OF ANNUAL RETURN

As provided under section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014, an extract of annual return in **MGT 9** as a part of this Annual Report (**ANNEXURE II**).

### 18. STATUTORY AUDITORS

Lalith Prasad and Co., Chartered Accountants, having registration no: 008089S, appointed as Statutory Auditors, of the Company, at the previous annual general meeting held on 13th May, 2014, for a period of 3 years, to audit the books of accounts of the company from FY 2014-15 till FY 2016-2017 and that, they shall hold office till the conclusion of the annual general meeting of the company to be held for FY 2016 - 17, subject to the ratification by the members of the company at every annual general meeting of the company in accordance with the applicable provisions of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, issued from time to time.

BSR and Associates, LLP, Chartered Accountants, having registration no: 116231W, appointed as Statutory Auditors, of the Company, at the previous annual general meeting held on 13th May, 2014, for a period of 5 years, to audit the books of accounts of the company from FY 2014 – 15 till FY 2018 - 19 and that, they shall hold office till the conclusion of the annual general meeting of the company to be held for FY 2018 - 19, subject to the ratification by the members of the company at every annual general meeting of the company in accordance with the applicable provisions of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, issued from time to time.

Accordingly, the appointment of M/s Lalith Prasad and Co. and M/s BSR & Associates, LLP, as the joint statutory auditors of the Company, is placed for ratification of the members at the ensuing Annual General Meeting (AGM).

### 19. STATUTORY AUDITORS' REPORT AND SECRETARIAL AUDITORS' REPORT

- Statutory Auditors' Report:** The statutory auditors' report does not contain any qualifications, reservations or adverse remarks. The report, however, makes a mention that the salary paid to Mr. Amit Saxena during FY 2015-2016 is in excess of the limits prescribed under the Companies Act, 2013. Your company, with the approval of the Board of Directors, has initiated the process of filing an application to the Ministry of Corporate Affairs for obtaining waiver in respect of excess remuneration paid to Mr. Amit Saxena (erstwhile Managing Director & CEO), during the period of April 1, 2015 to March 31, 2016.
- Secretarial Auditor's Report:** The report of secretarial auditor is given as **Annexure III** of this report. Their comments and the responses of the board of directors is as follows:
  - Mr. Amit Saxena's remuneration is in excess of the limit stipulated under section 197. The steps being taken in this regard are already set out in sub clause i above; and
  - Omission to file half yearly results to the BSE under Clause 29 of the Debt Listing Agreement, which is being redressed.

### 20. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The business operations of your company are not energy intensive. However, sufficient measures have been taken to minimize the energy consumption. There are no foreign exchange earnings for the company during the year. However, there has been foreign exchange outgo, the details whereof are as under:

(All Amounts in Rs.)

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
Business Promotion	-	942,451
Professional fees	1,026,070	491,240
Employee training cost	-	175,882
<b>Total</b>	<b>1,026,070</b>	<b>1,609,573</b>

## DIRECTORS' REPORT

### 21. SIGNIFICANT & MATERIAL ORDERS PASSED BY THE REGULATORS

There are no significant and material orders passed by the regulators or Courts or Tribunals against the company which can be constructed as impacting the going concern status and the company's operations in future.

### 22. DETAILS OF ADEQUACY OF INTERNAL FINANCIAL CONTROLS

- Your Directors report that, your Company has maintained adequate internal controls commensurate with its size and its nature of the operation. There are suitable monitoring procedures in place to provide reasonable assurance for accuracy and timely reporting of the financial information and compliance with the statutory requirements. There are proper policies, guidelines and delegation of powers issued for the compliances across the Company.
- For the purpose of ensuring accuracy in the preparation of the financials, your company has implemented various checks and balances and in order to ensure robust internal control systems, regular internal audits are conducted by the internal auditor of the company viz central internal audit division of Karvy Group. Your company is continuously putting its efforts to align the processes and controls with the best practices in the industry.

### 23. PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

During the year under review, there are no transactions relating to Loans/Guarantees/Investments to report as per the provisions of section 186 (4) of the Companies Act, 2013.

### 24. RISK MANAGEMENT POLICY

Your company has in place a risk management policy for the various services it offers and has duly identified elements of risk that, may threaten the existence of the company. The audit committee of the company oversees the areas of financials risks and controls and also reviews the major risks identified by the businesses and functions and ensure that, the same are systematically addressed on a continuing basis.

### 25. CORPORATE SOCIAL RESPONSIBILITY POLICY

Your company has constituted a Corporate Social Responsibility committee (CSR) on 29<sup>th</sup> December, 2014. Mr. M. Yugandhar, Mr. B.D. Narang and Mr. Amit Saxena form part of the CSR committee as on 31<sup>st</sup> March, 2016. The CSR committee has approved the CSR policy of the company, which is aimed at demonstrating care for the community through its focus on healthcare, education of underprivileged children, eradicating hunger poverty, malnutrition, Development of art and culture, promotion of sports. In line with the policy approved by the CSR committee and adopted by the Board, your company would support and undertake activities and projects within the broad framework of Schedule VII of the Companies Act, 2013. The disclosures as per Rule 9 of Companies (Corporate Social Responsibility Policy) Rules, 2014 are annexed hereto as "Annexure – IV".

The CSR committee has been reconstituted on 29<sup>th</sup> July, 2016, with Mr. B.D. Narang, Mr. M. Yugandhar, Mr. V. Mahesh as the members.

### 26. RELATED PARTY TRANSACTIONS

During the year, the Company had not entered into any contracts, arrangements, and transactions with related parties which could be considered as material in accordance with the policy of the Company on materiality of related party transactions and hence, there are no related party transactions to report as per the Section 188(1) of the Companies Act, 2013. All the related party transactions are placed before the audit committee as also the Board for approval.

### 27. PAYMENT OF REMUNERATION TO DIRECTORS

The remuneration details of Mr. Amit Saxena, Managing Director and CEO (resigned w.e.f. 13<sup>th</sup> July, 2016) as required to be mentioned pursuant to the provisions of part II of Schedule V of the Companies Act, 2013 and the rules framed thereunder are mentioned below:

Director	Salary p.a. (Rs.)	Perquisites	Stock Options
Mr. Amit Saxena	30,378,066/-	I. House rent allowance. II. Medical reimbursement III. Ex Gratia IV. Leave encashment V. Leave travel allowance VI. Contribution to employees provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax, Act, 1961. VII. Gratuity shall be calculated as per the rules of the company. VIII. Any other allowance, benefits and perquisites as the Board/Remuneration Committee may from time to time decide.	Presently, there are no stock options.



## DIRECTORS' REPORT

### 28. MANAGERIAL REMUNERATION

S.No.	Requirements	Disclosure
I	The ratio of the remuneration of each director to the median remuneration of the employees for the financial year.	Factors considered while recommending increase in the fixed Mr. Amit Saxena, Managing Director and CEO: 94x
II	The percentage increase in remuneration of each director, CFO, CEO, CS in the financial year.	i. Mr. Amit Saxena, Managing Director and CEO: 16.4% ii. Mr. Abhishek Baxi, Chief Financial Officer: 35% iii. Ms. Meenal Talesara, Company Secretary- 27.19%
III	The percentage increase in the median remuneration of employees in the financial year.	11.21%
IV	The number of permanent employees on the rolls of the Company.	There were 702 permanent employees as on March 31, 2016.
V	Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration;	The average annual increase was around 8.24% after accounting for promotions and other event based compensation revisions. Increase in the managerial remuneration for the year was 16.4%.
VI	Affirmation that the remuneration is as per the remuneration policy of the Company.	The Company affirms remuneration is as per the remuneration policy of the Company.

### 29. BOARD EVALUATION

Pursuant to the provisions of the Companies Act, 2013, the Board of directors has carried out an annual evaluation of its own performance, Board committees and individual directors for the FY 2015-16 by seeking their inputs on various aspects of Board/Committee Governance, effectiveness and its functioning.

The Nomination and Remuneration Committee ("NRC") has also reviewed the performance of the individual directors and submitted its report to the Board based upon the inputs received from the Directors. The NRC and the Board of Directors expressed their satisfaction with the evaluation process.

The NRC has been reconstituted on 29<sup>th</sup> July, 2016, with Mr. B.D. Narang, Mr. M. Yugandhar, Ms. Jyothi Prasad as the members.

### 30. DETAILS OF EMPLOYEES REMUNERATION

The details of employees drawing remuneration in excess of limits specified under Rule 5(2) & 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 during the year are given as **ANNEXURE – V** to this report.

### 31. ACKNOWLEDGEMENTS

Your Directors would like to express their sincere appreciation of the co-operation and assistance received from shareholders, bankers, regulatory bodies and other business constituents during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the commitment displayed by all executives, officers and staff, resulting in the successful performance of the Company during the year.

For and on behalf of the Board of Directors

Sd/-

**B.D. Narang**  
**Chairman**

DIN: 00038052

Address: Building No.7  
Office No. 762, 6th Floor,  
Solitaire Park, Andheri (E)  
Mumbai MH 400093

Sd/-

**M. Yugandhar**  
**Director**

DIN: 00012265

Address: Building No.7  
Office No. 762, 6th Floor,  
Solitaire Park, Andheri (E)  
Mumbai MH 400093

Date : 29-07-2016

Place : Mumbai



**MANAGEMENT DISCUSSION AND ANALYSIS**
**Macro-Economic Overview**

India has emerged as a bright spot in the world economy with 7.6 percent GDP growth in FY 2015-16. GDP growth has shown an increasing trend over the past three fiscals despite a subdued global demand that has adversely impacted India's exports along with muted growth in farm output and productivity due to below normal rainfall for two consecutive seasons. Agriculture sector grew at 1.2% in FY 2015-16 versus -0.2% in the previous fiscal. Manufacturing and services sector grew at 9.3% and 8.8% respectively. The Reserve bank of India reduced the repo rate by 75 basis points in FY 2015-16, as inflation was within its target range. Wholesale price index (WPI) remained at sub-zero levels throughout FY 2015-16 and was at -0.9% in March 2016. The Consumer price index (CPI) which measures retail inflation was at 4.8% in March 2016 versus 5.3% in March 2015.

The government did a fine balancing act in FY 2015-16- exhibited fiscal prudence and increased capital expenditure, crucial for maintaining growth at the current stage. In this fiscal, focus remained on several reforms initiated in FY 2014-15 as well as new ones, aimed at facilitating growth and maintaining macroeconomic stability. Key measures include promoting industry and enterprise through Make in India initiative, liberalizing foreign direct investment policy, identification of initial set of 20 cities to be developed as smart cities, overhauling the public sector banks, deepening access to financial services and encouraging savings through Pradhan Mantri Jan Dhan Yojana, improving reach and reducing spillage through direct benefit transfer. The improved investment flows and economic growth has highlighted the successful implementation of these reforms.

Performance of scheduled commercial banks remained subdued in FY 2015-16, with a continued slowdown in balance sheet growth. Credit off take was impacted due to slowdown in corporate sector and was mainly drive by retail credit growth. Rising NPAs added to the risk aversion of the lenders. Large corporates relied on external commercial borrowings, corporate bonds and commercial papers to fulfill part of their financing needs. Access to timely and adequate financing facilities still remains a challenge for Micro, small and medium enterprises (MSMEs). Though, it is expected that the formation of Micro Units Development Refinance Agency (MUDRA) Bank will create a robust framework enabling last mile credit delivery for MSMEs.

**Industry Developments**

The Indian economy has weathered many challenges successfully in recent times. Markets are optimistic, as a result of various policy measures announced or taken by the Government. The key policy changes include liberalization of foreign direct investment and a large array of investment facilitation measures. However, some large-ticket changes such as modified labour laws, simplified land acquisition rules and nationwide Goods and Services Tax are still not in place.

The banking system in India saw a major shift with the RBI ending forbearance in April 2015 and, through the Asset Quality Review process, ensuring that banks were taking proactive steps to clean up their Balance Sheets by March 2017. In all adversity, there is opportunity and as a result of the stressed bank Balance Sheets, the NBFC sector has a significant opportunity to grow. NBFCs do not have the NPA problem of the magnitude of that of the banks and are already operating under strict regulatory supervision. The NBFC sector is likely to report higher NPAs in the initial period as it moves to the 90+ recognition norm, but the sector as a whole will emerge stronger after the implementation of these initiatives. Additionally, the SARFAESI cover and a new bankruptcy code would make collections through the judicial system much simpler.

The year ahead will be challenging on many fronts, credit quality and shifts in operating model, to name a couple. Accepted norms and rules of doing business are likely to be rewritten with digital innovation, increased use of technology in financial services and payment and small banks coming on stream. Each individually, and all of them collectively, have the ability to change the face of the financial services sector. The NBFC sector appears to be best placed to take advantage and succeed in this changing environment.

**Financial Performance and Business Overview**

The following table presents the financial results of the Company's operations for the year ended March 31, 2016:

(Rs. in lakhs)

Particulars	FY 2015-2016	FY 2014-15
Gross Income	35,203.66	35,797.88
Operating expenses	1,831.10	1,995.10
Provisions and contingencies	870.25	117.88
Profit Before Tax	1,808.75	5,880.45
Provision for Tax	6,48.67	2,020.00
Net Profit After Tax	1,160.08	3,860.45

The fall in Profit Before Tax (PBT) during FY 2015-16 compared to FY 2014-15, while the gross income is comparable, is mainly due to the decision by the company to reverse interest accrued but not received on all loans declared NPAs. The Board of Directors have, by way of abundant caution and financial prudence, and as per the NPA norms of the Reserve Bank of India, directed the reversal of interest income aggregating to Rs.33.06 crores, which constitutes interest accrued but not paid on all loans declared as NPAs by the company. Specifically, a significant portion of the interest reversal aggregating to Rs.29.29 crore is on account of interest accrued on loans advanced to promoters/Directors of Deccan Chronicle Holdings Ltd., The principal amount of loan so advanced was Rs.36.07 crore, and the required provision has been made for the same, as per the prudential norms issued by the RBI. Therefore, the total exposure of principal and interest towards this particular borrower is Rs. 65.36 crore. The company has already have taken symbolic possession of the assets underlying these loans and is confident of recovery of the same. In addition, the Company has been in active discussions with

## DIRECTORS' REPORT

an ARC who have given a written offer for an amount of Rs.46 crore against the said NPA and the interest accrued thereon. Therefore, either through successful sale to the ARC or through liquidation of the land which is the collateral, the Company is confident of realising a significant portion of the loan.

Other NPAs that have been provided for by the company by way of abundant caution, are Rs.3.84 crs of interest reversal and a NPA provision of Rs.3.65 crs aggregating to Rs.7.49 crs.

### Status of NPAs as on 31 March 2016

S.No.	Particulars	No of customers	NPA POS	Loan Book	Gross NPA % to Loan Book	Net NPA % to Loan Book
1	Loan against property	62	6,380	178,463	3.57%	3.22%
2	Securities Finance	2	284	9,616	2.96%	2.35%
3	Loan against gold	263	182	26,676	0.68%	0.62%
4	Small commercial vehicles	61	177	8,595	2.06%	1.75%
	<b>Total</b>	<b>388</b>	<b>7,023</b>	<b>223,349</b>	<b>3.14%</b>	<b>2.81%</b>

To summarise, the P&L for the year ended 31st March, 2016 reflects a onetime expense on account of (a) interest reversal of Rs.33.07 cr, (b) provision for Principal outstanding of the loans classified as an NPA – Rs.7.03 cr, resulting in an exceptional expenditure of Rs.40.10 cr.

During the year under review, the company continued to focus on the Secured Business Loans. Your Company's product range during the year under review included secured business loans, securities finance, commodities finance, gold loans and small commercial vehicles.

### Product-wise performance

The overall interest income has decreased by 0.3% to Rs 33,749 lakh for year ended March 31, 2016 from Rs 34,160 lakh for the year ended March 31, 2015.

A summary of the product wise portfolio and interest income for the year ended March 31, 2016 is as under:

(Rs. in Lakhs)

Product	Portfolio	Interest income
Loan against Gold	26,676	6215.54
Loan against Property	178,463	26968.05
Commercial Vehicle Loan	8,595	935.33
Loan against Securities	9,615	-463.94
Total	223,349	33,654.98

### Shareholders' Funds

As of March 31, 2016, shareholders' funds of the Company amounted to Rs. 425 crores as compared to Rs. 365 crores as on March 31, 2015.

### Outlook

NBFCs will continue to play a pivotal role in improving availability of finance, in terms of products offered as well as customer relationships and geographical reach. The company will focus on its core strengths and look to serving the relatively underserved medium enterprises segment through customised products, high service benchmarks and competitive pricing. The Company's loans would be secured against property but its strong credit processes which emphasise cash flow based lending approach would help ensure sound asset quality with minimum delinquency. The company is also actively pursuing various fund raising opportunities for future growth, in addition to exploring possibilities of restructuring its operations to sustain the momentum of its business growth.

As a result of the proposed Business Transfer Agreement, which when fully implemented by the end of the second quarter of FY 2016-17, the Company would have disposed of its entire portfolio of retail assets. Therefore the financial year 2016-17, is expected to bring about marked changes in the Company's operations and performance. Financial consolidation and business reorientation are expected to temper the Company's growth and performance in the short term and therefore the Company is cautiously optimistic in its outlook for the year 2016-17.

### Opportunities

The government has announced a slew of policy measures to achieve the projected GDP growth in 2016-17 such as the approval of large infrastructure projects, addressing challenges of mining and power sectors, increasing foreign investment limits in Insurance and pension and development of new ports. Growth in agricultural sector output aided by a good monsoon is expected to drive demand from rural areas. Financing needs in India are expected to rise with sustained economic growth in the coming fiscal. Our organization will continue to play a critical role in catering to underserved segments of the medium enterprise sector. It would be possible to use technology and network reach to provide customised solutions for the financing needs of medium enterprises.

## DIRECTORS' REPORT

### Threats

The growth of the Company's asset book, quality of assets and ability to raise funds depend significantly on the economy. Unfavorable events in the Indian economy can affect consumer sentiment and in turn impact consumer decision to purchase financial products. Competition from a broad range of financial services providers, unstable political environment and changes in Government policy / regulatory framework could impact the Company's operations.

### Internal Control Systems

The Company has in place adequate systems of internal control which are commensurate with its size and the nature of operations.

The Company maintains a system of internal controls designed to provide a high degree of assurance regarding the effectiveness and efficiency of operations, the adequacy of safeguards for assets, the reliability of financial controls and compliance with applicable laws and regulations.

The Company has in place adequate systems to ensure that assets are safeguarded against loss due to unauthorised use or disposition and that transactions are authorised, recorded and reported.

The Company has an Internal Audit Department, which reports to the Audit Committee of the Board of Directors of the Company. The department conducts comprehensive audits of functional areas and operations of the Company to examine the adequacy of and compliance with policies, plans and statutory requirements.

### Risks & Concerns

Access to capital and funds, both short term and long term, managing asset- liability mismatches and managing growth without compromising asset quality are the big challenges faced by all the players, big and small, in the NBFC sector. Your Company too is no exception. However, we constantly invest in people, processes and technology and systems improvement to manage and mitigate these challenges. Active treasury management, strong credit scoring processes, early warning checks to minimise portfolio delinquency are on-going efforts.

#### Competition:

The financial services space in India is highly competitive. However the Company believes that the medium enterprises segment is relatively underserved as there has been greater emphasis by NBFCs on the retail segment. The positive macro economic factors and GDP growth estimates are likely to boost the fortunes of small and medium enterprises. In turn they would look to various sources including NBFCs to support their growth. The Company is confident that despite competition from other NBFCs and even from banks who are likely to step up their product offerings to this target segment, your Company has the requisite reach, existing customer relationships and resources to attain significant growth in the secured lending business to medium enterprises.

#### Changes in policies for the NBFC sector:

There is a growing trend towards more stringent yet structurally beneficial regulation in the NBFC sector. These include a) SARFAESI Act being extended to NBFCs, a revised bankruptcy code and moving towards stricter provisioning norms,

Anticipating such regulations and implementing good governance norms before they are mandated has been constant practice at the Company. Accordingly, the Company stands to benefit by policy notifications.

#### Operational Risk Management:

Towards minimising operational risks, the Company has created 'maker-checker' processes for critical controls. Further, it has laid down detailed process manuals for various operational activities. The Company believes its efforts to continuously strengthen its risk framework and portfolio quality, helped us build a stable & healthy portfolio.

### Human Capital

Your company recognises that the purpose of Human Resources is to be a catalyst and change agent. The company imparted training to its employees for knowledge on product, process and systems, skills and behaviors that have a direct impact on business performance. Our focus continues to be on-the-job training and we encourage our supervisors to provide the time required to coach their people. As on March 31, 2016, the company had 702 employees.

For and on behalf of the Board of Directors

Sd/-

**B.D. Narang**  
Chairman

DIN: 00038052

Address: Building No.7  
Office No. 762, 6th Floor,  
Solitaire Park, Andheri (E)  
Mumbai MH 400093

Sd/-

**M. Yugandhar**  
Director

DIN: 00012265

Address: Building No.7  
Office No. 762, 6th Floor,  
Solitaire Park, Andheri (E)  
Mumbai MH 400093

Date : 29-07-2016

Place : Mumbai

Form No. MGT-9

**EXTRACT OF ANNUAL RETURN**
**As on the financial year ended on 31.03.2016**

[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

**I. REGISTRATION AND OTHER DETAILS:**

- i) CIN: **U67190MH2001PLC227379**
- ii) Registration Date: **18.10.2001**
- iii) Name of the Company: **KARVY FINANCIAL SERVICES LIMITED**
- iv) Category / Sub-Category of the Company: **Public Limited Company**
- v) Address of the registered office and contact details: **Building No. 7, Office No. 762, 6th Floor, Solitaire Park, Andheri (East), Mumbai – 400093, Maharashtra.**
- vi) Whether listed company Yes / No: **No, as equity shares of the company are not listed on any stock exchange**
- vii) Name, Address and Contact details of Registrar and Transfer Agent, if any: -

**II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY**

All the business activities contributing 10% or more of the total turnover of the company shall be stated:-

Sl. No.	Name and Description of main products / services	NIC Code of the Product / service	% to total turnover of the company
1	Non- Banking Financial Company (loan company)	64990	100%

**III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES:-**

Sl. No.	Name and address of the company	CIN/GLN	Holding / Subsidiary / Associate	% of shares held	Applicable Section
1	Karvy Stock Broking Limited 46, Avenue 4, Street No. 1, Banjara Hills, Road No. 10, Hyderabad -500 034	U67120TG1995PLC019877	Holding Company	100%	2 (87(ii))

**IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity)**
**i) Category-wise Share Holding**

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
<b>A. Promoters</b>									
(A1) Indian									
a) Individual/ HUF	0	0	0	0.00	0	0	0	0.00	0.00
b) Central Govt	-	-	-	-	-	-	-	-	-
c) State Govt(s)	-	-	-	-	-	-	-	-	-
d) Bodies Corp.	6,09,99,994	6	6,10,00,000	100	7,46,24,994	36,25,006	7,82,50,000	100	28.28%
e) Banks / FI	-	-	-	-	-	-	-	-	-
f) Any Other....	-	-	-	-	-	-	-	-	-
<b>Sub-total (A)(1)</b>	<b>6,09,99,994</b>	<b>6</b>	<b>6,10,00,000</b>	<b>100</b>	<b>7,46,24,994</b>	<b>36,25,006</b>	<b>7,82,50,000</b>	<b>100</b>	<b>28.28%</b>
<b>(1):- (A2) Foreign</b>	-	-	-	-	-	-	-	-	-
a) NRIs - Individuals	-	-	-	-	-	-	-	-	-
b) Other – Individuals	-	-	-	-	-	-	-	-	-
c) Bodies Corp.	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other....	-	-	-	-	-	-	-	-	-
<b>Sub-total(A) (2):-</b>	-	-	-	-	-	-	-	-	-
<b>Total shareholding of Promoter (A) = (A)(1)+(A)(2)</b>	<b>6,09,99,994</b>	<b>6</b>	<b>6,10,00,000</b>	<b>100</b>	<b>7,46,24,994</b>	<b>36,25,006</b>	<b>7,82,50,000</b>	<b>100</b>	<b>28.28%</b>
<b>B. Public Shareholding Institutions</b>									
a) Mutual Funds	-	-	-	-	-	-	-	-	-
b) Banks / FI	-	-	-	-	-	-	-	-	-
c) Central Govt	-	-	-	-	-	-	-	-	-
d) State Govt(s)	-	-	-	-	-	-	-	-	-
e) Venture Capital Funds	-	-	-	-	-	-	-	-	-
f) Insurance Companies	-	-	-	-	-	-	-	-	-
g) FIs	-	-	-	-	-	-	-	-	-
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others	-	-	-	-	-	-	-	-	-
<b>Sub-total (B)(1):-</b>	-	-	-	-	-	-	-	-	-

**IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity)**
**i) Category-wise Share Holding (Continued)**

Category of Shareholders	No. of Shares held at the beginning of th year				No. of Shares held at the end of the year				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
<b>2. Non-Institutions</b>				-					
a) Bodies Corp.	-	-	-	-	-	-	-	-	-
i) Indian	-	-	-	-	-	-	-	-	-
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals	-	-	-	-	-	-	-	-	-
i) Individual shareholders holding nominal share capital upto Rs. 1 lakh	-	-	-	-	-	-	-	-	-
ii) Individual shareholders holding nominal share capital in excess of Rs 1 Lakh	-	-	-	-	-	-	-	-	-
c) Others(specify)	-	-	-	-	-	-	-	-	-
<b>Sub-total (B)(2):-</b>	-	-	-	-	-	-	-	-	-
Total Public Shareholding (B)=(B)(1)+(B)(2)	-	-	-	-	-	-	-	-	-
C. Shares held by Custodian for GDRs&ADRs	-	-	-	-	-	-	-	-	-
<b>Grand Total(A+B+C)</b>	<b>6,09,99,994</b>	<b>6</b>	<b>6,10,00,000</b>	<b>100</b>	<b>7,46,24,994</b>	<b>36,25,006</b>	<b>7,82,50,000</b>	<b>100</b>	<b>28.28%</b>

**(ii) Shareholding of Promoters**

Sl No.	Shareholder's Name	Shareholding at the beginning of the year			Share holding at the end of the year			% change in share holding during the year
		No. of Shares	% of total Shares of the company	% of Shares Pledged/ encumbered to total shares	No. of Shares	% of total Shares of the company	% of Shares Pledged/ encumbered to total shares	
1	Karvy Stock Broking Limited (KSBL)	2,69,99,994	44.27	-	2,89,99,994	37.06	-	7.41
2	C. Parthasarathy representing KSBL	1	0.00	-	1	0.00	-	0.00
3	M. Yugandhar representing KSBL	1	0.00	-	1	0.00	-	0.00
4	M.S. Ramakrishna representing KSBL	1	0.00	-	1	0.00	-	0.00
5	M. Uma Maheswara Reddy representing KSBL	1	0.00	-	1	0.00	-	0.00
6	J. Ramaswamy representing KSBL	1	0.00	-	1	0.00	-	0.00
7	V. Mahesh representing KSBL	1	0.00	-	1	0.00	-	0.00
8	Karvy Comtrade Limited	1,10,00,000	18.03	-	1,10,00,000	14.06	-	(3.97)
9	Karvy Holdings Limited	80,00,000	13.11	-	1,80,00,000	23.00	-	125
10	Karvy Realty (India) Limited	1,50,00,000	24.59	-	2,02,50,000	25.88	-	35
	<b>Total</b>	<b>6,10,00,000</b>	<b>100</b>	<b>-</b>	<b>7,82,50,000</b>	<b>100</b>	<b>-</b>	<b>28.28</b>

**(iii) Change in Promoters' Shareholding (please specify, if there is no change):**
**Change in Promoters (Karvy Holdings Limited) shareholding during the Financial Year.**

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	80,00,000	13.11%	80,00,000	13.11%
	Date wise Increase / Decrease in Promoters Shareholding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): <b>*[No. fresh allotment made. % decrease in shareholding was due to the rights issue of 36,25,000 equity shares on 31.05.2015 to Karvy Realty (India) Limited]</b>			*80,00,000	12.37%
	<b>*[% Increase in shareholding was due to conversion of 2,50,00,000 CCCPS into 50,00,000 equity shares in tranches on 01.06.2015 to Karvy Holdings Limited]</b>			*1,30,00,000	18.67%
	<b>*[% Increase in shareholding was due to conversion of 2,50,00,000 CCCPS into 50,00,000 equity shares in tranches on 31.08.2015 to Karvy Holdings Limited]</b>			*1,80,00,000	24.12%
	<b>*[No. fresh allotment made. % decrease in shareholding was due to conversion of loan provided by Karvy Stock Broking Limited into 36,25,000 equity shares on 30.01.2016.</b>			*1,80,00,000	23.00%
	At the End of the year			<b>1,80,00,000</b>	<b>23.00%</b>

**Change in Promoters (Karvy Realty (India) Limited) shareholding during the Financial Year.**

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	1,50,00,000	24.59	1,50,00,000	24.59
	Date wise Increase / Decrease in Promoters Shareholding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): <b>Date of Allotment: 23.05.2015 Reason: Rights issue 36,25,000 equity shares to Karvy Realty (India) Limited</b>			1,86,25,000	28.82%
	<b>*[No. fresh allotment made. % decrease in shareholding was due to conversion of 2,50,00,000 CCCPS into 50,00,000 equity shares on 01.06.2015 to Karvy Holdings Ltd.]</b>			1,86,25,000	26.75%
	<b>*[No. fresh allotment made. % decrease in shareholding was due to conversion of 2,50,00,000 CCCPS into 50,00,000 equity shares on 31.08.2015 to Karvy Holdings Ltd.]</b>			1,86,25,000	24.96%
	<b>*[No. fresh allotment made. % decrease in shareholding was due to conversion of loan provided by Karvy Stock Broking Limited into 36,25,000 equity shares on 30.01.2016.</b> <b>Date of Transfer: 30.03.2016 Reason: Acquisition of 1625000 equity shares from Karvy Stock Broking Limited on 30.3.2016</b>			1,86,25,000	23.80%
	<b>At the End of the year</b>			<b>2,02,50,000</b>	<b>25.88</b>



**Change in Promoters (Karvy Stock Broking Limited) shareholding during the Financial Year.**

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	2,69,99,994	44.26%	2,69,99,994	44.26%
	Date wise Increase / Decrease in Promoters Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): <b>*[No. fresh allotment made. % decrease in shareholding was due to the rights issue of 36,25,000 equity shares on 31.05.2015 to Karvy Realty (India) Limited]</b>			*2,69,99,994	41.77%
	<b>*[% decrease in shareholding was due to rights issue of 36,25,000 equity shares to Karvy Realty (India) Limited., on 23.05.2016 and conversion of 5,00,00,000 CCCPS into 1,00,00,000 equity shares in tranches on 01.06.2015, and 31.08.2015 to Karvy Holdings Limited]</b>			*2,69,99,994	36.18%
	<b>Date of Allotment:</b> 30.03.2016 <b>Reason:</b> Allotment of 36,25,000 equity shares to Karvy Stock Broking Limited on 30.3.2016 pursuant to the conversion of loan availed into equity.			*3,06,24,994	39.13%
	<b>*[% decrease in shareholding was due to the transfer of 16,25,000 equity shares to Karvy Realty (India) Limited on 30.03.2016.</b>			2,89,99,994	37.06
	At the End of the year			2,89,99,994	37.06

**Change in Promoters (Karvy Comtrade Limited) shareholding during the Financial Year.**

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	1,10,00,000	18.03%	1,10,00,000	18.03%
	Date wise Increase / Decrease in Promoters Shareholding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc): <b>*[% decrease in shareholding was due to rights issue of 36,25,000 equity shares to Karvy Realty (India) Limited., on 23.05.2016;</b>			*1,10,00,000	17.02%
	<b>*[% decrease in shareholding was due to conversion of 5,00,00,000 CCCPS into 1,00,00,000 equity shares in tranches on 01.06.2015, and 31.08.2015 to Karvy Holdings Limited]</b>			*1,10,00,000	14.74%
	<b>*[% decrease in shareholding was due to issue of 36,25,000 equity share to Karvy Stock Broking Limited pursuant to the conversion of loan availed into equity.]</b>			*1,10,00,000	14.06%
	At the End of the year			*1,10,00,000	14.06%

**(iv) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs): NIL**

Sl. No.	For each of the Top 10 Shareholders	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	0	0	0	0
	Date wise Increase / Decrease in Shareholding during the year specifying the reasons for increase /decrease (e.g. allotment / transfer / bonus / sweat equity etc):	0	0	0	0
	At the End of the year ( or on the date of separation, if separated during the year)	0	0	0	0

**(v) Shareholding of Directors and Key Managerial Personnel:**

Sl. No.	For each of the Directors and KMP	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	2	0.00%	2	0.00%
	Date wise Increase / Decrease in Share holding during the year specifying the reasons for increase/ decrease (e.g. allotment / transfer / bonus/ sweat equity etc):	-	-	-	-
	At the End of the year			2	0.00%

**V. INDEBTEDNESS**

Indebtedness of the Company including interest outstanding/accrued but not due for payment:

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
<b>Indebtedness at the beginning of the financial year</b>				
i) Principal Amount	14,218,093,629	4,223,440,433		18,441,534,062
ii) Interest due but not paid			-	
iii) Interest accrued but not due	42,752,305	59,196,601	-	101,948,906
<b>Total (i+ii+iii)</b>	<b>14,260,845,934</b>	<b>4,282,637,034</b>		<b>18,543,482,968</b>
<b>Change in Indebtedness during the financial year</b>				
• Addition	3,239,181,268	0		3,239,181,268
• Reduction		1,349,338,330		1,349,338,330
<b>Net Change</b>	3,239,181,268	(1,349,338,330)	-	1,889,842,938
<b>Indebtedness at the end of the financial year</b>				
i) Principal Amount	17,457,274,897	2,874,102,103		20,331,377,000
ii) Interest due but not paid				-
iii) Interest accrued but not due	33,894,971	9,348,226		43,243,197
<b>Total (i+ii+iii)</b>	<b>17,491,169,868</b>	<b>2,883,450,329</b>		<b>20,374,620,197</b>

**VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL -**
**A. Remuneration to Managing Director, Whole-time Directors and/or Manager:**

Sl. No.	Particulars of Remuneration	Name of MD/WTD/ Manager Mr. Amit Saxena Whole time Director & CEO	Total Amount (in Rs.)
1.	Gross salary (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 (c) Profits in lieu of salary under section 17(3) Income- tax Act, 1961	26,551,329/-	26,551,329/-
2.	Stock Option	-	-
3.	Sweat Equity	-	-
4.	Commission - as % of profit - others, specify...	-	-
5.	Others, please specify	-	-
	-House Rent Allowance	3,056,400/-	3,056,400/-
	-Employer's contribution to PF	770,337/-	770,337/-
	<b>Total (A)</b>	<b>30,378,066/-</b>	<b>30,378,066/-</b>

**B. Remuneration to other directors:**

Sl. No.	Particulars of Remuneration	Name of Directors				Total Amount (in Rs.)
		Mr. B.D. Narang	Mr. Yugandhar Meka	Mr. V. Mahesh	Ms. Jyoti Prasad	
	Independent Directors					
	Fee for attending board committee meetings	3,80,000	-	-	3,20,000	7,00,000
	Commission	-	-	-	-	-
	Others, please specify	-	-	-	-	-
	<b>Total (1)</b>	<b>3,80,000</b>	<b>-</b>	<b>-</b>	<b>3,20,000</b>	<b>7,00,000</b>
	Other Non-Executive Directors					
	Fee for attending board committee meetings	-	3,00,000	2,60,000	-	5,60,000
	Commission	-	-	-	-	-
	Others, please specify	-	-	-	-	-
	<b>Total (2)</b>	<b>-</b>	<b>3,00,000</b>	<b>2,60,000</b>	<b>-</b>	<b>5,60,000</b>
	<b>Total (B)=(1+2)</b>	<b>3,80,000</b>	<b>3,00,000</b>	<b>2,60,000</b>	<b>3,20,000</b>	<b>12,60,000</b>
	Total Managerial Remuneration					
	Overall Ceiling as per the Act					

**C. Remuneration to Key Managerial Personnel Other Than /Manager/WTD –**

Sl. No.	Particulars of Remuneration	Key Managerial Personnel		Total (in Rs.)
		Mr. Abhishek Baxi Chief Financial Officer	Ms. Meenal Talesara Company Secretary	
1.	Gross salary (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 (c) Profits in lieu of salary under section 17(3) Income-tax Act, 1961	4,727,939	640,060	5,367,999
2.	Stock Option	-	-	-
3.	Sweat Equity	-	-	-
4.	Commission as % of profit others	-	-	-
5.	Others, please specify - House Rent Allowance - Employer's contribution to PF	882,000 211,680	155,563 31,115	1,037,563 242,795
		<b>5,821,619</b>	<b>826,738</b>	<b>6,648,357</b>

**VII. PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES:**

There were no penalties/ punishment/ compounding of offences for the year ended March 31, 2016.

For and on behalf of the Board of Directors

Sd/-  
**B.D. Narang**  
Chairman

DIN: 00038052  
Address: Building No. 7,  
Office No. 762 6th Floor,  
Solitaire Park, Andheri (E),  
Mumbai MH 400093

Sd/-  
**M. Yugandhar**  
Director

DIN: 00012265  
Address: Building No. 7,  
Office No. 762 6th Floor,  
Solitaire Park, Andheri (E)  
Mumbai MH 400093

Date : 29-07-2016  
Place : Mumbai

**SECRETARIAL AUDIT REPORT**

FOR THE FINANCIAL YEAR ENDED MARCH 31, 2016

*[Pursuant to section 204(1) of the Companies Act, 2013 and Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]*

To,  
The Members,  
**Karvy Financial Services Limited**  
Mumbai

We have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **Karvy Financial Services Limited** (U67190MH2001PLC227379) and having its registered office at Building No. 7, Office No. 762 6th Floor, Solitaire Park, Andheri (East) Mumbai-400093 (hereinafter called 'the Company'). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/ statutory compliances and expressing our opinion thereon.

Based on our verification of the Company's books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, We hereby report that in our opinion, the Company has, during the audit period covering the financial year ended on March 31, 2016 complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

We have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on March 31, 2016 according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made thereunder;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings (**Not applicable to the company during the audit period**);
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):
  - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
  - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (effective till May 14, 2015) and The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (effective from May 15, 2015);
  - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (**Not applicable to the Company during the audit period**);
  - (d) Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 (**Not applicable to the Company during the audit period**);
  - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
  - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
  - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 (**Not applicable to the Company during the audit period**);
  - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998 (**Not applicable to the Company during the audit period**); and
  - (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 applicable effective from December 1, 2015 in respect of Non-convertible debentures of the Company listed at BSE Limited, Mumbai;
- (vi) The Reserve Bank of India Act, 1934 and Credit Information Companies (Regulation) Act, 2005 and the directions, regulations issued by Reserve Bank of India thereunder and as applicable to Non-Banking Financial Companies, being laws that are specifically applicable to the Company based on their sector/ industry.

We have also examined compliance with the applicable clauses of the following:

- (i) Secretarial Standards issued by The Institute of Company Secretaries of India effective from July 1, 2015;
- (ii) The Listing Agreement entered into by the Company with BSE Limited, Mumbai in respect of Non-convertible debentures of the Company listed therein (effective up to November 30, 2015);

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Standards, Guidelines, Directions etc. mentioned above and in respect of laws specifically applicable to the Company based on their sector/industry, in so far as registration, membership, submission of various returns/information or other particulars to be filed with Reserve Bank of India **subject to the following observations.:**

- (a) that the remuneration paid to Mr. Amit Saxena, Managing Director of the company for the year under review is in excess of the limit stipulated under Sec 197 without obtaining the previous approval of Central Government; and
- (b) that as required under Clause 29 of the Debt Listing Agreement, the Company has not submitted the unaudited financial results for half year ended on 30th September, 2015 with BSE Ltd. and has also not published the same in the newspapers.

**We further report that**

The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.

**We further report that** there are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations, standards, guidelines and directions.

**We further report that** during the audit period the Company:

1. obtained approval of members of the company for issue of Non-Convertible Debentures (NCD's) upto Rs.500 crores on private placement basis vide special resolution passed in the Annual General Meeting held on 27<sup>th</sup> July, 2015;
2. obtained approval from the members of the Company under section 62(3) read with Section 42, by way of special resolution in the Extra-ordinary General meeting held on 31<sup>st</sup> December, 2015 for conversion of existing loan amounting to Rs. 25,01,25,000/- from Karvy Stock Broking (the holding company) into 36,25,000 equity shares of Rs.10/- each at a premium of Rs. 59/- per share to be allotted to the Karvy Stock Broking Limited; and
3. redeemed Non-Convertible Debentures as per following details:

Series	Face Value (in Rs.)	Date of redemption	No. of NCDs
B-21	100,000	30-Nov-15	195
B-22	100,000	12-Oct-15	107
B-28	100,000	30-Dec-15	107
B-29	1,000,000	30-Mar-16	7
B-37	1,000,000	3-Jun-15	9
B-38	1,000,000	16-Dec-15	12
B-39	1,000,000	14-Jan-16	37
B-40	1,000,000	28-Jan-16	12
B-42	1,000,000	21-Feb-16	10
B-43-Type II	1,000,000	29-Mar-16	20
	<b>Total</b>		<b>516</b>

This report is to be read with our letter of even date which is annexed as 'Annexure-A' and forms an integral part of this report.

Place : Mumbai  
Date : July 29, 2016

For **Manish Ghia & Associates**  
Company Secretaries  
Sd/-  
**Manish L. Ghia**  
Partner  
M. No. FCS 6252 C.P. No. 3531

To,  
The Members,  
**Karvy Financial Services Limited**  
Mumbai

Our report of even date is to read along with this letter.

1. Maintenance of secretarial record is the responsibility of the management of the Company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. We believe that the process and practices, we followed provided a reasonable basis for our opinion.
3. We have not verified the correctness and appropriateness of financial records and Book of Accounts of the Company.
4. Where ever required, we have obtained the Management representation about the compliance of laws, rules and regulations and happening of events etc.
5. The compliance of the provisions of corporate and other applicable laws, rules, regulation, standards is the responsibility of management. Our examination was limited to the verification of procedures on the test basis.
6. The Secretarial Audit Report is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Manish Ghia & Associates**  
*Company Secretaries*  
Sd/-  
**Manish L. Ghia**  
*Partner*

**Place : Mumbai**  
**Date: July 29, 2016**

**M. No. FCS 6252 C.P. No. 3531**



## ANNUAL REPORT ON CSR ACTIVITIES

1. **A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.**

It is the Company's philosophy, firm belief and intent to effectively implement CSR and make a positive difference to society. It recognizes that it cannot do it all; so that if there are choices to be made, bias will be towards doing fewer projects with better outcomes and good impact and will focus initiatives on communities in which the Company lives, operates and particularly forming community whose development is the basic mission of the Company.

2. **The Composition of the CSR Committee:**

- Mr. B.D. Narang
- Mr. M. Yugandhar
- Mr. Amit Saxena\*

\*Mr. Amit Saxena resigned from the Board of the company w.e.f.13.07.2016.

3. **Average net profit of the company for last three financial years:** Rs. 365,271,300/-
4. **Prescribed CSR Expenditure (two per cent of the amount as in item 3 above):** Rs. 7,305,426/-
5. **Details of CSR spent during the financial year:**
- (a) **Total amount to be spent for the financial year:** Rs. 7,305,426/-
- (b) **Amount unspent, if any:** Rs. 6,555,426/-
- (c) **Manner in which the amount spent during the financial year is detailed below.**

SNo	CSR project or activity identified	Sector in which the Project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise (Rs. in lakh)	Amount spent on the projects or programs Sub-heads: (1) Direct expenditure on projects or programs. (2) Overheads	Cumulative expenditure upto to the reporting period (Rs. in lakh)	Amount spent: Direct or through implementing agency
1	Contribution to Qadir Ali Baig Foundation	Promotion of Art and Culture	i. Local area.ii. State: Hyderabad, Telangana	8.00	-	7.50	Through implementing agency – Qadir Ali Baig Theatre Foundation
	<b>TOTAL</b>			<b>8.00</b>	<b>-</b>	<b>7.50</b>	

6. **In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.**

During the year under review, of the focus areas identified and approved by the CSR committee, the company has contributed Rs. 7.50 lakhs towards promotion of art of culture. The company is working on identifying projects in other focus areas and putting in place a sustainable CSR model so as to ensure maximum benefit to the community. For this reason, during the year, the Company's spend on the CSR activities has been less than the limits prescribed under Companies Act, 2013. The CSR activities are scalable which coupled with new initiatives that may be considered in future, the Company will endeavour to spend on CSR activities in accordance with the prescribed limits.

7. **Responsibility statement of the CSR Committee**

The Responsibility Statement of the Corporate Social Responsibility Committee of the Board of Directors of the Company is reproduced below:

'The implementation and monitoring of Corporate Social Responsibility (CSR) Policy, is in compliance with CSR objectives and policy of the Company.'

For and on behalf of the Board of Directors

Sd/-  
**B.D. Narang**  
Chairman  
DIN: 00038052  
Address: Building No. 7,  
Office No. 762 6th Floor,  
Solitaire Park, Andheri (E),  
Mumbai MH 400093

Sd/-  
**M. Yugandhar**  
Director  
DIN: 00012265  
Address: Building No. 7,  
Office No. 762 6th Floor,  
Solitaire Park, Andheri (E)  
Mumbai MH 400093

Date : 29-07-2016  
Place : Mumbai

**KARVY FINANCIAL SERVICES LIMITED**  
**Annexure to the Report of Board of Directors for the year ended 31st March, 2016**  
**Statement of Employees pursuant to Rule 5(2) & 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.**

S.No.	Name	Age	Designation	Remuneration Received (Cost to Company for the FY 2014-15)	Nature of employment (contractual or otherwise)	Qualifications	Experience (No. of years)	Date of commencement of employment	Last employment held	% of equality shares held in the company	Whether relative of any Director or Manager of the company and if so, name of such director or manager
1	Amit Saxena	41	Managing Director and CEO	3,03,78,066	Permanent, Resolution for appointment was approved by the Board and the members in their meeting	BE, MBA	18	27-05-2008	Citi Financial Consumer Finance India Ltd	NIL	NA
2	Siva Ramakrishna Rao Damaraju	41	Head - Collections & Vigilance	60,08,001	Confirmed employee	MBA	19	12-09-2012	Spandana Spoorthy Financial Services	NIL	NA
3	Abhishek Baxi	38	Chief Financial Officer	58,21,619	Confirmed employee	CA	16	28-01-2014	3i Infotech	NIL	NA
4	Gaurav Mehta	35	Head - Credit & Risk (SF)	46,54,181	Confirmed employee	CA	12	05-08-2011	Anand Rathni	NIL	NA
5	Saurav Koithyal	37	Head SBL	44,72,204	Confirmed employee	MBA	14	28-02-2011	Citi Bank	NIL	NA
6	Arunchandra Jupalli	41	Division Head - South	44,55,176	Confirmed employee	MBA	16	22-03-2012	Nelambit Value First Services	NIL	NA
7	Amit Sharma	41	Business Head - Securities Finance & SCV	42,18,976	Confirmed employee	CS & LLB	18	01-12-2011	Religare Finvest Ltd.	NIL	NA
8	Sangeeta Shetty	38	Head - Business Process Controls & MIS	37,98,379	Confirmed employee	BCOM	16	13-10-2008	Citi Financial Consumer Finance India Ltd	NIL	NA
9	Amit Prakash Jahagirdar	38	Head - Small & Medium Enterprise	35,94,909	Confirmed employee	BE, MBA	14	10-09-2012	TATA Capital Financial Services	NIL	NA
10	Krunal Mahesh Dossni	33	Zonal Head - West (SME Indirect & LCHF)	30,14,788	Confirmed employee	MBA	13	06-04-2011	Indusind Bank	NIL	NA

**For KARVY FINANCIAL SERVICES LIMITED**

Sd/-  
**B. D. Narang**  
**Chairman**  
**DIN: 00038052**

Address: Building No. 7, Office No. 762,  
6th Floor, Solitaire Park, Andheri (E)  
Mumbai MH 400093

Sd/-  
**M. Yagandhar**  
**Director**  
**DIN: 00012265**

Address: Building No. 7, Office No. 762,  
6th Floor, Solitaire Park, Andheri (E)  
Mumbai MH 400093

**Date : 29.07.2016**  
**Place : Mumbai**

# INDEPENDENT AUDITORS' REPORT

To the Members of  
**Karvy Financial Services Limited**

## Report on the Financial Statements

We have audited the accompanying financial statements of Karvy Financial Services Limited ("the Company"), which comprise the Balance Sheet as at 31 March 2016, the Statement of Profit and Loss, the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (collectively referred to as the 'financial statements')

## Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion of these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder, to the extent applicable.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards and pronouncements require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

## Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2016, and its profit and its cash flows for the year ended on that date.

## Emphasis of Matter

We draw attention to Note 2.57 to the financial statements which states that the Company has paid remuneration to the Chief Executive Officer and Managing Director in excess of the limits prescribed under the provisions of Section 197 of the Act, without obtaining prior approval from the Central Government. The Company is in the process of obtaining necessary approvals from the Central Government with respect to such excess remuneration paid. Our opinion is not qualified in respect of this matter.

## Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the "Annexure A" a statement on the matters specified in paragraphs 3 and 4 of the said Order, to the extent applicable.
2. As required by Section 143(3) of the Act, we report that:
  - (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
  - (c) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
  - (d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
  - (e) On the basis of the written representations received from the directors as on 31 March 2016 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2016 from being appointed as a director in terms of Section 164(2) of the Act.

**INDEPENDENT AUDITORS' REPORT (Contd.)**

- (f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in "Annexure B".
- (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us;
- i. The Company has disclosed the impact of pending litigations as at 31 March 2016 on its financial position in its financial statements Refer Note. 2.26.
  - ii. The Company has long-term contracts other than derivative contracts for which there were no material foreseeable losses.
  - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

for **B S R & Associates LLP**

*Chartered Accountants*

ICAI Firm Registration No: 116231WW-100024

**H Selva Thiraviam**

*Partner*

Membership No: 200120

Place: Mumbai

Date: 29 July 2016

for **Lalith Prasad and Co**

*Chartered Accountant*

Firm Registration No: 008089S

**S. Lalith Prasad**

*Partner*

Membership No: 023665

Place: Mumbai

Date: 29th July 2016

## ANNEXURE A TO THE INDEPENDENT AUDITORS' REPORT

The Annexure A referred to in our report of even date to the Members of Karvy Financial Services Limited ("the Company") on the financial statements for the year ended 31 March 2016, we report that:

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verifications of its fixed assets by which all fixed assets are verified every year except for the assets at branches which are verified in a phased manner over a period of two years. In accordance with this program, certain fixed assets were verified during the year and no material discrepancies were noticed on such verification. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets.
- (c) The Company does not own any immovable properties. Therefore, the provisions of Clause 3(i)(c) of the Order are not applicable to the Company.
- ii. The Company is a Non-Banking Finance Company not accepting or holding public deposit and primarily engaged in asset financing. Accordingly, it does not hold any physical inventory. Hence Clause 3(ii) of the Order is not applicable to the Company.
- iii. The Company has granted unsecured loans, to two companies covered in the register maintained under Section 189 of the Act.
  - a. In respect of the aforesaid loans, the terms and conditions under which such loans were granted are not prejudicial to the interest of the Company.
  - b. In respect of the aforesaid loans, the schedule of repayment of principal and payment interest has been stipulated and the parties are repaying the principal amounts, as stipulated, and are also regular in payment of interest as applicable.
  - c. In respect of the aforesaid loans, there is no amount which is overdue for more than 90 days.
- iv. The Company has not granted any loans or made any investments, or provided any guarantees or security to the parties covered under Section 185 and the provisions of Section 186 of the Act are not applicable to the Company.
- v. The Company has not accepted any deposits from the public.
- vi. The Central Government has not prescribed the maintenance of cost records under sub-section (1) of Section 148 of the Companies Act, 2013 for any of the services rendered by the Company.
- vii. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Service tax value added tax and other material statutory dues have been deposited regularly, with slight delays in few instances during the year by the company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Sales tax, duty of Customs, duty of Excise and Cess.  
 According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Service tax and other material statutory dues were in arrears as at 31 March 2016 for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us, there are no dues of Income tax, Sales tax, Service tax, duty of Customs, duty of Excise, Value added tax and Cess which have not been deposited with the appropriate authorities on account of any dispute.
- viii. According to the records of the Company examined by us and the information and explanation given to us, the Company has not defaulted in repayment of loans or borrowings to any financial institution or bank or dues to debenture holders as at the balance sheet date. The Company did not have any dues to Government.
- ix. The Company has not raised any monies by way of initial public offer or further public offer (including debt instruments). In our opinion and according to the information and explanations given to us, monies raised by way of term loans have been applied, on an overall basis for the purposes for which they were obtained.
- x. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management.
- xi. The managerial remuneration paid by the Company is in excess of the limits mandated by the provisions of Section 197 of the Act. The Company is in the process of obtaining necessary approvals from Central Government with respect to such excess remuneration.
- xii. The Company is not a Nidhi Company and the Nidhi Rules, 2014 are not applicable to it. Accordingly, the provisions of Clause 3 (xii) of the Order are not applicable to the Company.
- xiii. The Company has entered into transactions with related parties in compliance with the provisions of Sections 177 and 188 of the Act. The details of such related party transactions have been disclosed in the financial statements as required under Accounting Standard (AS) 18, Related Party Disclosures specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- xiv. The Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review. Accordingly, the provisions of Clause 3(xiv) of the Order are not applicable to the Company.
- xv. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into any non-cash transactions with its directors or persons connected with him as contemplated under the provisions under section 192 of the Act. Accordingly, the provisions of Clause 3(xv) of the Order are not applicable to the Company.

**ANNEXURE A TO THE INDEPENDENT AUDITORS' REPORT (Contd.)**

xvi. The Company is required to, and has been registered under Section 45-IA of the Reserve Bank of India Act, 1934 as "Non-Banking Finance Company - Systemically Important Non-Deposit taking".

for **B S R & Associates LLP**

*Chartered Accountants*

ICAI Firm Registration No: 116231W/W-100024

Sd/-

**H Selva Thiraviam**

*Partner*

Membership No: 200120

Place: Mumbai

Date: 29 July 2016

for **Lalith Prasad and Co**

*Chartered Accountant*

Firm Registration No: 008089S

Sd/-

**S. Lalith Prasad**

*Partner*

Membership No: 023665

Place: Mumbai

Date: 29th July 2016

## ANNEXURE B TO THE INDEPENDENT AUDITORS' REPORT

The Annexure B referred to in paragraph 2(f) of the Independent Auditor's Report of even date to the Members of Karvy Financial Services Limited on the financial statements for the year ended 31 March 2016.

### Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of the Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of Karvy Financial Services Limited ("the Company") as of 31 March 2016 in conjunction with our audit of the financial statements of the Company for the year ended on that date.

#### Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India ("ICAI"). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's internal financial controls system over financial reporting.

#### Meaning of Internal Financial Controls over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable details, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

#### Inherent Limitations of Internal Financial Controls over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

#### Opinion

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the ICAI.

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No: 116231W/W-100024

Sd/-

**H Selva Thiraviam**

Partner

Membership No: 200120

for **Lalith Prasad and Co**

Chartered Accountant

Firm Registration No: 008089S

Sd/-

**S. Lalith Prasad**

Partner

Membership No: 023665

Place: Mumbai

Date: 29 July 2016

Place: Mumbai

Date: 29th July 2016



**KARVY FINANCIAL SERVICES LIMITED**

BALANCE SHEET AS AT 31 MARCH 2016

(All amounts in Indian rupees, except share data and where otherwise stated)

	Note	As At 31 March 2016	As At 31 March 2015
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	2.1	78,25,00,000	1,11,00,00,000
Reserves and surplus	2.2	3,46,36,92,412	2,53,92,41,649
		<u>4,24,61,92,412</u>	<u>3,64,92,41,649</u>
<b>Non-current liabilities</b>			
Long-term borrowings	2.3	11,37,85,86,523	8,76,25,97,606
Other long term liabilities	2.4	3,06,860	98,28,122
Long-term provisions	2.5	5,65,20,512	4,21,31,076
		<u>11,43,54,13,895</u>	<u>8,81,45,56,804</u>
<b>Current liabilities</b>			
Short-term borrowings	2.6	3,98,97,17,431	4,93,54,87,284
Trade payables	2.7	-	-
- total outstanding due to micro and small enterprises		5,13,11,710	1,76,32,738
- total outstanding due of creditors other than micro and small enterprises		5,09,73,50,005	4,84,03,36,464
Other current liabilities	2.8	10,12,39,496	8,60,32,502
Short-term provisions	2.9	9,23,96,18,642	9,87,94,88,988
		<u>9,23,96,18,642</u>	<u>9,87,94,88,988</u>
<b>Total</b>		<b><u>24,92,12,24,949</u></b>	<b><u>22,34,32,87,441</u></b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets			
- Tangible assets	2.10	7,29,75,088	6,62,79,336
- Intangible assets	2.11	2,58,38,570	2,21,86,359
- Intangible assets under development	2.12	60,73,552	19,79,552
Non-current investments	2.13	1,06,552	1,06,552
Deferred tax assets, net	2.31	5,63,84,123	2,42,62,206
Long-term loans and advances	2.14	16,21,38,48,986	14,26,99,55,972
Other non-current assets	2.15	10,35,731	8,75,368
		<u>16,37,62,62,602</u>	<u>14,38,56,45,345</u>
<b>Current assets</b>			
Current investments	2.16	-	90,70,101
Cash and bank balances	2.17	73,44,72,317	22,79,04,500
Short-term loans and advances	2.18	6,73,01,88,681	6,77,45,09,796
Other current assets	2.19	1,08,03,01,349	94,61,57,699
		<u>8,54,49,62,347</u>	<u>7,95,76,42,096</u>
<b>Total</b>		<b><u>24,92,12,24,949</u></b>	<b><u>22,34,32,87,441</u></b>
Significant accounting policies	1		
Notes to the financial statements	2		
The notes referred above form an integral part of the financial statements			

As per our report of even date attached

 for **B S R & Associates LLP**

Chartered accountants

ICAI Firm registration no. 116231W/W-100024

Sd/-

**H Selva Thiraviam**

Partner

Membership No. : 200120

 for **Lalith Prasad and Co**

Chartered accountant

ICAI Firm registration no. 008089S

Sd/-

**S. Lalith Prasad**

Partner

Membership No. 023665

for and on behalf of the Board of Directors of

**Karvy Financial Services Limited**

CIN:U67190MH2001PLC227379

Sd/-

**M. Yugandhar**

Director

DIN :00012265

Sd/-

**Jyothi Prasad**

Director

DIN :06947488

Sd/-

**G. Krishna Hari**

Director

DIN :00148721

Place: Mumbai

Date: 29 July 2016

Sd/-

**B.D. Narang**

Director

DIN :00038052

Sd/-

**V Mahesh**

Director

DIN:00800219

Sd/-

**Meenal Talesara**

Company Secretary

M.No.A22658

Place: Mumbai

Date: 29 July 2016

Place: Mumbai

Date: 29 July 2016

**KARVY FINANCIAL SERVICES LIMITED**
**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2016**

(All amounts in Indian rupees, except share data and where otherwise stated)

	Note	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>Revenue</b>			
Revenue from operations	2.20	3,52,03,65,793	3,57,97,87,839
<b>Total Revenue</b>		<b>3,52,03,65,793</b>	<b>3,57,97,87,839</b>
<b>Expenses</b>			
Operating expenses	2.21	18,31,10,197	19,95,09,616
Employee benefits	2.22	40,47,84,405	35,50,13,826
Finance costs	2.23	2,33,81,48,652	2,09,33,17,852
Depreciation and amortisation	2.24	2,63,20,626	3,59,40,504
Other expenses	2.25	38,71,26,733	30,79,60,750
<b>Total Expense</b>		<b>3,33,94,90,613</b>	<b>2,99,17,42,548</b>
<b>Profit before tax</b>		<b>18,08,75,180</b>	<b>58,80,45,291</b>
Tax expenses :			
- Current tax		9,69,88,960	21,24,35,733
- Deferred tax		(3,21,21,917)	(1,04,35,408)
<b>Profit for the year</b>		<b>11,60,08,137</b>	<b>38,60,44,966</b>
<b>Earnings per equity share [nominal value of share Rs. 10 (previous year: Rs. 10)]</b>	2.34		
Basic		1.35	5.00
Diluted		1.35	5.00
Significant accounting policies	1		
Notes to the financial statements	2		
The notes referred above form an integral part of the financial statements			

As per our report of even date attached

**for B S R & Associates LLP**
*Chartered accountants*

ICAI Firm registration no. 116231W/W-100024

Sd/-

**H Selva Thiraviam**
*Partner*

Membership No. : 200120

**for Lalith Prasad and Co**
*Chartered accountant*

ICAI Firm registration no. 008089S

Sd/-

**S. Lalith Prasad**
*Partner*

Membership No. 023665

for and on behalf of the Board of Directors of

**Karvy Financial Services Limited**

CIN:U67190MH2001PLC227379

Sd/-

**M. Yugandhar**
*Director*

DIN :00012265

Sd/-

**Jyothi Prasad**
*Director*

DIN :06947488

Sd/-

**G. Krishna Hari**
*Director*

DIN :00148721

Place: Mumbai

Date: 29 July 2016

Sd/-

**B.D. Narang**
*Director*

DIN :00038052

Sd/-

**V Mahesh**
*Director*

DIN:00800219

Sd/-

**Meenal Talesara**
*Company Secretary*

M.No.A22658

Place: Mumbai

Date: 29 July 2016

Place: Mumbai

Date: 29 July 2016

**KARVY FINANCIAL SERVICES LIMITED**
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2016**

(All amounts in Indian rupees, except share data and where otherwise stated)

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>Cash flows from operating activities</b>		
Net profit before tax	18,08,75,180	58,80,45,291
Adjustments:		
- Depreciation and amortisation	2,63,20,626	3,59,40,504
- Contingent provisions against standard assets	1,44,27,735	1,02,12,123
- Loss on sale of assets	8,59,312	-
- Provision against non performing assets	7,25,97,606	15,76,353
- Interest on bank deposits	(5,47,367)	(48,27,358)
- Interest on debt securities	(55,110)	(20,67,110)
- Profit on sale of Debt Securities	-	(10,51,565)
<b>Operating cash flows before working capital changes</b>	<b>29,44,77,982</b>	<b>62,78,28,238</b>
(Increase) / decrease in inventories		
(Increase)/ decrease in loans and advances	(1,86,14,03,824)	(4,13,81,55,279)
(Increase) / decrease in other current assets	(13,41,43,650)	(34,09,55,903)
Increase / (decrease) in liabilities	(8,09,47,299)	8,33,00,389
<b>Cash generated from operations</b>	<b>(1,78,20,16,791)</b>	<b>(3,76,79,82,555)</b>
Income taxes paid	(11,53,80,493)	(22,13,75,341)
<b>Net cash flow used in operating activities (A)</b>	<b>(1,89,73,97,284)</b>	<b>(3,98,93,57,896)</b>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets (tangible and intangible fixed assets, Intangible assets under development)	(6,26,65,034)	(3,63,71,496)
Proceeds from sale of fixed assets	12,66,601	-
Purchase / sale of investments	90,70,101	6,77,83,219
Investments in bank deposits (having original maturity of more than three months)	4,97,58,233	(5,01,48,971)
Interest on bank deposits	5,47,367	48,27,358
Interest on debt securities	55,110	20,67,110
<b>Net cash used by investing activities (B)</b>	<b>(19,67,622)</b>	<b>(1,18,42,780)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of Equity shares	50,02,50,000	-
Dividend paid on equity shares	-	(18,30,00,000)
Dividend distribution tax on dividend on equity shares	-	(3,65,89,321)
Distribution of preference dividend	(1,60,41,667)	(11,45,83,333)
Dividend distribution tax on dividend on preference shares	(32,65,707)	(2,29,09,981)
Debenture issue expenses	-	(90,00,000)
Proceeds from borrowings - secured	59,45,74,79,784	63,32,57,14,245
Proceeds from borrowings - unsecured	17,07,28,98,413	17,71,42,36,660
Repayment of borrowings - secured	(56,21,82,98,526)	(59,52,07,40,296)
Repayment of borrowings - unsecured	(18,33,71,70,978)	(17,17,20,10,698)
<b>Net cash from financing activities (C)</b>	<b>2,45,58,51,319</b>	<b>3,98,11,17,276</b>
<b>Net (decrease)/ increase in cash and cash equivalents (A + B + C)</b>	<b>55,64,86,413</b>	<b>(2,00,83,400)</b>
Cash and cash equivalents at beginning of the year (Refer note 2.17)	17,70,15,796	19,70,99,196
<b>Cash and cash equivalents at end of the year (Refer note 2.17)</b>	<b>73,35,02,209</b>	<b>17,70,15,796</b>
<b>Cash and cash equivalents</b>		
Cash on hand	2,67,281	24,315
Balance with banks		
- on current accounts	73,32,34,928	17,69,91,481
	<b>73,35,02,209</b>	<b>17,70,15,796</b>

As per our report of even date attached

 for **B S R & Associates LLP**

Chartered accountants

ICAI Firm registration no. 116231W/W-100024

Sd/-

**H Selva Thiraviam**

Partner

Membership No. : 200120

 for **Lalith Prasad and Co**

Chartered accountant

ICAI Firm registration no. 008089S

Sd/-

**S. Lalith Prasad**

Partner

Membership No. 023665

for and on behalf of the Board of Directors of

**Karvy Financial Services Limited**

CIN:U67190MH2001PLC227379

Sd/-

**M. Yugandhar**

Director

DIN :00012265

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Director

DIN :00148721

Place: Mumbai

Date: 29 July 2016

Sd/-

**B.D. Narang**

Director

DIN :00038052

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**V Mahesh**

Director

DIN:00800219

Sd/-

**Meenal Talesara**

Company Secretary

M.No.A22658

Place: Mumbai

Date: 29 July 2016

Place: Mumbai

Date: 29 July 2016

# KARVY FINANCIAL SERVICES LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

(All amounts in Indian rupees, except share data where otherwise stated)

### Company overview

Karvy Financial Services Limited (the "Company" or "KFSL") was incorporated on 18 October 2001. The Company is registered with Reserve Bank of India to carry out the business of Non Banking Financial Company not accepting or holding public deposits. The Company is primarily engaged in the business of lending against property, gold and securities.

### 1. Significant accounting policies

#### a) Basis of preparation of financial statements

These financial statements have been prepared and presented on the accrual basis of accounting and comply with the Accounting Standards ("AS") specified under Section 133 of the Companies Act, 2013 ("the Act") read with Rule 7 of the Companies (Accounts) Rules, 2014, the relevant guidelines of Reserve Bank of India ("RBI") to the extent applicable to a Non-Deposit taking Non-Banking Financial Company Systemically Important (NBFC-ND-SI), the guidelines issued by the Securities and Exchange Board of India (SEBI) to the extent applicable and other accounting principles generally accepted in India to the extent applicable. The financial statements are presented in Indian Rupees rounded off to the nearest rupee. The accounting policies set out below have been applied consistently to the periods presented in these financial statements.

#### b) Use of estimates

The preparation of financial statements in conformity with Generally accepted accounting principles (GAAP) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognized prospectively in current and future periods.

#### c) Current – non-current classification

All assets and liabilities are classified into current and non-current.

##### Assets

An asset is classified as current when it satisfies any of the following criteria:

- it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is expected to be realized within 12 months after the reporting date; or
- it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

Current assets include the current portion of non-current financial assets. All other assets are classified as non-current.

##### Liabilities

A liability is classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is due to be settled within 12 months after the reporting date; or
- the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current liabilities include the current portion of non-current financial liabilities. All other liabilities are classified as non-current.

#### d) Operating cycle

Operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Based on the nature of operations and their realization in cash and cash equivalents, the Company has ascertained its operating cycle as twelve months.

#### e) Revenue recognition

- Interest income on loan portfolio is recognised in the statement of profit and loss on accrual basis taking into account the amount outstanding and the rate applicable except in the case of non-performing assets ("NPA's") where it is recognised, upon realization, as per RBI guidelines.
- Fee income including loan processing fee and other fee are accounted for upfront as and when it become due as per the terms of contract entered into with the customer.
- Interest on fixed deposits and debt securities are accrued on the time proportion basis, taking into account the amount outstanding and interest rate applicable.
- Profit / loss on sale of stock in trade and derivative instruments are recognised at the time of sale.
- Income from Securitisation/ Direct Assignments- The Company enters into arrangements for sale of loan receivables through direct assignment/ Securitisation. The said assets are de-recognised upon transfer of significant risks and rewards to the purchaser and on meeting the true sale criteria.

## KARVY FINANCIAL SERVICES LIMITED

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2015 (Continued)

(All amounts in Indian rupees, except share data where otherwise stated)

**f) Assets classification and provisioning policy for Loan Portfolio**

The Company has adopted Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 as amended and prescribed by Reserve Bank of India from time to time for its assets classification and provisioning policy. Non-performing assets are written off / provided for, as per management estimates, subject to the minimum provision required as per said regulation.

During the year, pursuant to RBI Regulations, the Company has revised its recognition norms of Non-performing Assets (NPA) from 180 days to 150 days and has increased provision on standard assets from 0.25% to 0.30%.

**g) Fixed assets and depreciation**

**Tangible fixed assets**

Tangible fixed assets are carried at cost of acquisition less accumulated depreciation. The cost of tangible fixed assets comprises the purchase price, taxes, duties, freight (net of rebates and discounts) and any other directly attributable costs of bringing the assets to their working condition for their intended use. Borrowing costs directly attributable to acquisition of those tangible fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized.

The cost of tangible fixed assets acquired but not ready for their intended use as at the balance sheet date are disclosed as capital work-in-progress.

The Company provides depreciation under straight line method on tangible fixed assets, other than leasehold improvements and assets costing less than Rs. 5,000, based on the useful life of specified in schedule II of the Companies Act, 2013, as in the opinion of the Management, the same reflects the estimated useful life.

Leasehold improvements are amortised on straight line basis over the primary period of the lease or the estimated useful life of the assets, whichever is lower.

With respect to assets costing less than Rs. 5,000 based on the internal assignment and materiality, the management has estimated that the same shall be depreciated in the year of purchase. Depreciation is calculated on pro-rata basis from the date on which the assets are ready for use or till the date the assets are sold or disposed of. Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date are disclosed as capital advances under long-term loans and advances.

**Intangible assets**

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets under development are capitalized only if the company is able to establish control over such assets and expects future economic benefit will flow to the company. Intangible assets are amortized in the Statement of Profit and Loss over their estimated useful lives from the date they are available for use based on the expected pattern of economic benefits of the asset.

Product process handling software primarily comprises of software used in the business of lending against property, gold and securities and are amortised over their estimated useful life of 5 years.

**Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that any assets forming part of its cash generating units may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs to is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the Statement of Profit and Loss. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the reassessed recoverable amount subject to a maximum of depreciated historical cost.

**h) Benchmark linked debentures**

The Company has issued certain secured redeemable non-convertible debentures, the return of which is linked to performance of specified indices/ commodities over the period of the debenture. Such debentures have a component of an embedded derivative which is fair valued at year end. The resultant net unrealised loss or gain on the fair valuation of these embedded derivatives is recognised in the Statement of profit and loss. The debt component of such debentures is measured at amortised cost using yield to maturity basis.

**i) Investments**

Investments that are readily realizable and intended to be held for not more than a year from the date of acquisition are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost or fair value. The comparison of cost and fair value is done separately in respect of each category of investments i.e., Equity shares, preference shares, debt securities etc.

Long term investments are carried at cost less any other temporary diminution in value, determined separately for each individual investment.

Profit or loss on sale of investments is determined on the basis of weighted average carrying amount of investments disposed off.

**j) Foreign Currency Transactions**

Foreign currency transactions are accounted for at the rates prevailing on the date of the transaction. Exchange differences, if any arising out of transactions settled during the year are recognised in the Statement of Profit and Loss.

Monetary assets and liabilities denoted in foreign currencies as at the Balance Sheet date are translated at the closing exchange rates. Resultant exchange

## KARVY FINANCIAL SERVICES LIMITED

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)

(All amounts in Indian rupees, except share data where otherwise stated)

differences, if any, are recognised in the Statement of Profit and Loss and related assets and liabilities are accordingly restated in the Balance Sheet.

Non-monetary items which are carried in terms of historical cost denominated in a foreign currency at the Balance Sheet date are reported using exchange rates at the date of the transaction

#### k) Employee benefits

##### Defined contribution plans

The Company makes specified monthly contribution towards employee provident fund to Government administered provident fund scheme, which is a defined contribution scheme. The Company's contribution is recognized as an expense in the Statement of Profit and Loss during the period in which the employee renders the related service.

##### Defined benefits plan

The Company provides for gratuity, a defined benefit retirement plan covering eligible employees. Gratuity is covered under a scheme administered by the Canara HSBC Oriental Bank of Commerce Life Insurance Co Limited (Group Gratuity scheme) and the contributions made by the company to the scheme are recognised in Statement of Profit and Loss. The liability recognised in the Balance Sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets. The calculation of the Company's obligation under the plan is performed annually by qualified independent actuary using the projected unit credit method.

Actuarial gains and losses arising during the year are immediately recognised in the Statement of Profit and Loss.

##### Compensated absences

Compensated absences, is a long-term employee benefit, and accrued based on an actuarial valuation done as per projected unit credit method as at the Balance Sheet date, carried out by an independent actuary. Actuarial gains and losses arising during the year are immediately recognised in the Statement of Profit and Loss.

#### l) Operating leases

Lease payments for assets taken on operating lease are charged in the Statement of profit and loss on a straight-line basis over the lease term.

#### m) Income Tax

Income tax expense comprises current tax and deferred tax.

##### Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

##### Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and is written-down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred taxes relate to same taxable entity and same taxation authority.

#### n) Earnings per share

Basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Dilutive potential equity shares are deemed to have been converted as of the beginning of the year, unless they have been issued at a later date.

#### o) Borrowing costs

Borrowing cost includes interest and other cost including, amortization of ancillary borrowing costs. Interest on borrowings is expensed in the period to which they relate. Ancillary costs incurred in connection with the terms of borrowing are amortised over the tenure of the borrowing on straight line basis.

#### p) Cash and cash equivalents

Cash and cash equivalents comprise cash and cash on deposit with banks/financial institutions. The Company considers all highly liquid investments with a remaining maturity of three months or less and that are readily convertible to known amounts of cash to be cash equivalents.

#### q) Cash flow statement

Cash flows are reported using the indirect method, whereby net profit/ (loss) before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, investing and financing activities of the company are segregated.

**KARVY FINANCIAL SERVICES LIMITED**

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)

(All amounts in Indian rupees, except share data where otherwise stated)

**r) Provisions and contingent liabilities**

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognized at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provisions are measured on an undiscounted basis.

A contingent liability exists when there is a possible but not probable obligation, or a present obligation that may, but probably will not, require an outflow of resources, or a present obligation whose amount cannot be estimated reliably. Contingent liability do not warrant provisions, but are disclosed unless the possibility of outflow of resources is remote.

A contract is considered as onerous when the expected economic benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision for an onerous contract is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the company recognises any impairment loss on the assets associated with that contract.



**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016	As at 31 March 2015
<b>2.1 Share capital</b>		
<b>Authorised</b>		
105,000,000 (Previous year: 105,000,000) Equity shares of Rs.10 each	1,05,00,00,000	1,05,00,00,000
100,000,000 (Previous year: 100,000,000 ) 11% Compulsorily convertible cumulative preference shares ('CCCPS') of Rs.10 each	1,00,00,00,000	1,00,00,00,000
	<u><b>2,05,00,00,000</b></u>	<u><b>2,05,00,00,000</b></u>
<b>Issued, subscribed and paid-up:</b>		
78,250,000 (Previous year: 61,000,000) Equity shares of Rs. 10 each, fully paid-up.	78,25,00,000	61,00,00,000
NIL (previous year: 50,000,000) 11% Compulsorily convertible cumulative preference shares of Rs 10 each, fully paid up	-	50,00,00,000
	<u><b>78,25,00,000</b></u>	<u><b>1,11,00,00,000</b></u>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016		As at 31 March 2015	
<b>2.1 Share capital (Continued)</b>				
<b>a. Reconciliation of shares outstanding at the beginning and at the end of the reporting year:</b>				
<b>Particulars</b>	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Equity shares</b>				
At the commencement of the year	6,10,00,000	61,00,00,000	4,10,00,000	41,00,00,000
Issued during the year	1,72,50,000	17,25,00,000	2,00,00,000	20,00,00,000
<b>At the end of the year</b>	<b>7,82,50,000</b>	<b>78,25,00,000</b>	<b>6,10,00,000</b>	<b>61,00,00,000</b>
<b>CCCPS</b>				
At the commencement of the year	5,00,00,000	50,00,00,000	15,00,00,000	1,50,00,00,000
Converted during the year	5,00,00,000	50,00,00,000	10,00,00,000	1,00,00,00,000
<b>At the end of the year</b>	<b>-</b>	<b>-</b>	<b>5,00,00,000</b>	<b>50,00,00,000</b>
<b>b. The rights, preferences and restrictions attached to equity shares.</b>				
The Company has single class equity shares having a par value of Rs. 10 per equity share. Accordingly, all equity shares rank equally with regard to dividends and share in the company's residual assets. The equity shares are entitled to receive dividend as declared from time to time subject to payment of dividend to preference shareholders. In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the residual assets of the Company, remaining after distribution of all preferential amounts in proportion to the number of equity shares held. Upon show of hands, every Member present in person and holding any equity share capital therein, shall have one vote, in respect of such capital, on every resolution placed before the company.				
<b>c. The rights, preferences and restrictions attached to Compulsorily Convertible Cumulative Preference Share (CCCPS)</b>				
150,000,000 11% CCCPS of Rs. 10 each issued at par to Karvy Holdings Limited (a subsidiary of Karvy Stock Broking Limited, the holding company) and Karvy Reality (India) Limited during the Financial year 2013-14. These preference shares are convertible into equity shares of Rs.10 each in the ratio of 1 Equity share of every 5 Preference shares at quarterly intervals starting from 31 May 2014 and ending on 31 August 2015. Preference share holders carry a preferential right as to dividend over equity shareholders. Where dividend on Cumulative Preference Shares is not declared for a financial year, the entitlement thereto is carried forward. In the event of liquidation, preference share holders have preferential right over equity share holders to be repaid to the extent of Capital paid up and dividend in arrears of such shares. During the year, the Company has converted 50,000,000 CCCPS into 10,000,000 equity shares in the ratio of 1 equity share for 5 preference share at a premium of Rs. 40 per equity share as per the agreement with preference shareholder. In the previous year, the Company converted 100,000,000 CCCPS into 20,000,000 equity shares in the ratio of 1 equity share for 5 preference share at a premium of Rs. 40 per equity share as per the agreement with preference shareholder.				
<b>d.</b>	During the year, the Company made, rights issue of 3,625,000 equity shares of face value of Rs. 10 each at a premium of Rs. 59 to the existing shareholders in accordance with the provisions of Act. However, except for one shareholder [Karvy Reality (India) Limited], all other renounced their rights to subscribe.			
<b>e.</b>	Pursuant to the terms of the loan agreement (dated 2 April 2015, as amended on 30 December 2015) with the Holding Company, short term loan amounting to Rs. 250,125,000 have been converted into 3,625,000 equity shares having a face value of Rs. 10 each at a premium of Rs 59 each. [refer note 2.35(a)]			
<b>f. Shares held by holding and their subsidiaries</b>	As at 31 March 2016		As at 31 March 2015	
	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Equity Shares of Rs. 10 each fully paid up held by</b>				
Karvy Stock Broking Limited - Holding Company	2,90,00,000	29,00,00,000	2,70,00,000	27,00,00,000
Karvy Comtrade Limited (subsidiary of Karvy Stock Broking Limited)	1,10,00,000	11,00,00,000	1,10,00,000	11,00,00,000
Karvy Holdings Limited (subsidiary of Karvy Stock Broking Limited)	1,80,00,000	18,00,00,000	80,00,000	8,00,00,000
Karvy Reality (India) Limited (subsidiary of Karvy Stock Broking Limited)	2,02,50,000	20,25,00,000	1,50,00,000	15,00,00,000
	<b>7,82,50,000</b>	<b>78,25,00,000</b>	<b>6,10,00,000</b>	<b>61,00,00,000</b>
<b>g. CCCPS of Rs. 10 each fully paid up held by</b>				
Karvy Holdings Limited (Subsidiary of Karvy Stock Broking Limited)	-	-	5,00,00,000	50,00,00,000

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016		As at 31 March 2015	
<b>h. Particulars of shareholder holding more than 5% of equity shares of Rs. 10 each fully paid up is set below:</b>				
<b>Name of the shareholder</b>	<b>Number of Shares</b>	<b>% of Holding</b>	<b>Number of Shares</b>	<b>% of Holding</b>
Karvy Stock Broking Limited	2,90,00,000	37.06%	2,70,00,000	44.26%
Karvy Comtrade Limited	1,10,00,000	14.06%	1,10,00,000	18.03%
Karvy Holdings Limited	1,80,00,000	23.00%	80,00,000	13.11%
Karvy Reality (India) Limited	2,02,50,000	25.88%	1,50,00,000	24.59%
<b>i. Particulars of shareholder holding more than 5% of CCCPS shares of Rs. 10 each fully paid up is set below:</b>				
<b>Name of the shareholder</b>	<b>Number of Shares</b>	<b>% of Holding</b>	<b>Number of Shares</b>	<b>% of Holding</b>
Karvy Holdings Limited	-	0.00%	5,00,00,000	100.00%

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016	As at 31 March 2015
<b>2.2 Reserves and surplus</b>		
<b>a. Securities premium account</b>		
At the commencement of the year	1,98,60,00,000	1,19,50,00,000
Add: premium received	82,77,50,000	80,00,00,000
Less: amount utilised towards debenture issue expenses	-	90,00,000
	2,81,37,50,000	1,98,60,00,000
<b>b. Statutory reserve (created under Section 45-1C of RBI Act, 1934)</b>		
At the commencement of the year	29,53,87,564	21,81,78,571
Add: amount transferred	2,32,01,627	7,72,08,993
	31,85,89,191	29,53,87,564
<b>c. General reserve</b>		
At the commencement of the year	10,22,22,103	7,32,68,731
Add: amount transferred from Surplus	-	2,89,53,372
	10,22,22,103	10,22,22,103
<b>d. Surplus (Profit and loss balance)</b>		
At the commencement of the year	15,56,31,982	23,43,10,895
Less: Depreciation adjustment as per the transitional provisions of the Act (refer note 2.10)	-	14,78,879
Add: profit for the year	11,60,08,137	38,60,44,966
<b>Less: Appropriations</b>		
Transfer to statutory reserve	2,32,01,627	7,72,08,993
Dividend on Equity Shares paid for the year	-	18,30,00,000
Dividend distribution tax on equity shares	-	3,65,89,321
Dividend on CCCPS	1,60,41,667	11,45,83,333
Dividend distribution tax on CCCPS	32,65,707	2,29,09,981
Transfer to general reserve	-	2,89,53,372
	22,91,31,118	15,56,31,982
<b>Total (a+b+c+d)</b>	<b>3,46,36,92,412</b>	<b>2,53,92,41,649</b>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016	As at 31 March 2015
<b>2.3 Long-term borrowings</b>		
Secured redeemable non-convertible debentures (Refer note 2.37)	2,90,00,000	20,80,00,000
<b>Term loans</b>		
<b>Secured</b>		
from banks (Refer note 2.38)	10,65,65,65,558	8,14,67,97,606
from others (Refer note 2.38)	25,50,00,000	
<b>Unsecured</b>		
from other party (Refer note 2.41)	13,80,20,965	10,78,00,000
Unsecured redeemable non-convertible debentures (Refer note 2.37)	30,00,00,000	30,00,00,000
	<b>11,37,85,86,523</b>	<b>8,76,25,97,606</b>
<b>2.4 Other long-term liabilities</b>		
Interest accrued but not due on borrowings	3,06,860	98,28,122
	<b>3,06,860</b>	<b>98,28,122</b>
<b>2.5 Long-term provisions</b>		
<b>Provision for employee benefits</b>		
- Gratuity (Refer note 2.44)	66,35,414	54,51,227
- Compensated absences	41,72,232	11,24,212
<b>Other provisions</b>		
- Contingent provisions against standard assets (Refer note 2.29)	4,57,12,866	3,55,55,637
	<b>5,65,20,512</b>	<b>4,21,31,076</b>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016	As at 31 March 2015
<b>2.6 Short-term borrowings</b>		
<b>Loans repayable on demand</b>		
<b>Secured</b>		
Cash credit from banks (Refer note 2.39)	1,62,98,21,364	1,55,60,87,283
Working capital demand loan from banks (Refer note 2.39)	60,00,00,000	55,00,00,000
	<u>2,22,98,21,364</u>	<u>2,10,60,87,283</u>
<b>Unsecured</b>		
From others		
- Working capital demand loan (Refer note 2.41)	29,98,96,067	32,94,00,001
- Commercial papers (Refer note 2.36)	1,36,00,00,000	2,50,00,00,000
Inter corporate deposit		
- From Related Parties	-	-
- From others (Refer note 2.42)	10,00,00,000	-
	<u>1,75,98,96,067</u>	<u>2,82,94,00,001</u>
	<u><b>3,98,97,17,431</b></u>	<u><b>4,93,54,87,284</b></u>
<b>2.7 Trade payables</b>		
Trade payables		
- due to micro and small enterprises (Refer note 2.43)		
- Others	5,13,11,710	1,76,32,738
	<u><b>5,13,11,710</b></u>	<u><b>1,76,32,738</b></u>
<b>2.8 Other current liabilities</b>		
Current maturity of long term debts from banks - secured (Refer note 2.38)	4,06,28,87,976	3,60,93,08,740
Current maturity of long term debts from banks - unsecured (Refer note 2.40)	25,00,00,000	47,49,89,597
Current maturity of long term debts from other - secured (Refer note 2.38)	4,50,00,000	-
Current maturity of secured redeemable non-convertible debentures (Refer note 2.37)	17,90,00,000	14,79,00,000
Book overdraft	42,61,84,958	51,12,50,835
Interest accrued but not due on borrowings	4,29,36,337	3,40,32,562
Other payables		
- Salaries and other liabilities	39,71,122	34,12,949
- Leave travel allowance payable	27,30,252	27,30,769
- Accrued expenses	7,65,89,460	3,57,87,042
- Statutory liabilities	80,49,900	2,09,23,970
	<u><b>5,09,73,50,005</b></u>	<u><b>4,84,03,36,464</b></u>
<b>2.9 Short term provisions</b>		
<b>Provision for employee benefits</b>		
- Gratuity (Refer note 2.44)	2,17,745	2,34,725
- Compensated absences	38,25,694	59,70,530
	<u><b>40,43,439</b></u>	<u><b>62,05,255</b></u>
<b>Other provisions</b>		
- Contingent provisions against standard assets (Refer note 2.29)	2,04,77,406	1,62,06,900
- Provision for non performing assets (Refer note 2.29)	7,67,18,651	41,21,045
- Provision for proposed dividend on CCCPS and tax thereon	-	5,94,99,302
	<u><b>9,71,96,057</b></u>	<u><b>7,98,27,247</b></u>
	<u><b>10,12,39,496</b></u>	<u><b>8,60,32,502</b></u>

# KARVY FINANCIAL SERVICES LIMITED

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)

(All amounts in Indian rupees, except share data and where otherwise stated)

### 2.10 Tangible fixed assets

Description	Original Cost			Depreciation			Net book value		
	As at 1 April 2015	Additions	Deletions	As at 31 March 2016	For the year	Deletions	Adjustment to Reserve*	As at 31 March 2016	As at 31 March 2015
<b>Tangible assets</b>									
Computer and related assets	2,40,79,334	70,52,117	-	3,11,31,451	56,11,791	-	-	86,35,226	71,94,900
Furniture and fixtures	4,14,65,271	1,24,36,765	-	5,39,02,036	51,26,075	-	-	4,05,63,549	3,32,52,859
Motor Car	1,02,74,248	31,35,504	25,54,330	1,08,55,422	13,66,176	4,77,624	-	96,71,010	99,78,388
Office equipment	2,42,40,888	35,91,532	94,192	2,77,38,198	52,90,211	44,985	-	1,41,05,303	1,58,53,189
<b>Total</b>	<b>10,00,59,711</b>	<b>2,62,15,918</b>	<b>26,48,522</b>	<b>12,36,27,107</b>	<b>1,73,94,253</b>	<b>5,22,609</b>	<b>-</b>	<b>7,29,75,088</b>	<b>6,62,79,336</b>
Previous year	7,42,81,924	2,57,77,787	-	10,00,59,711	1,92,55,899	-	14,78,879	3,37,80,375	6,62,79,336

\* Pursuant to the notification of Schedule II of the Act, by the Ministry of Corporate Affairs effective 1 April 2014, the management has internally reassessed and changed, wherever necessary the useful lives to compute depreciation, to conform to the requirements of the Act. Consequently, the carrying amount of tangible assets at 1 April 2014 is being depreciated over the revised remaining useful life of the tangible asset. The carrying value of Rs 1,478,879, in case of assets with nil revised remaining useful life as at 1 April 2014 is reduced from the surplus as at such date. Further, had the Company continued with the previously assessed useful lives, charge for depreciation for the year ended 31 March 2015 would have been lower by Rs. 12,306,007 and the profit before tax would have been higher by such amount.

### 2.11 Intangible assets

Description	Original Cost			Amortisation			Net book value		
	As at 1 April 2015	Additions	Deletions	As at 31 March 2016	For the year	Deletions	Adjustment to Reserve	As at 31 March 2016	As at 31 March 2015
Product process handling software	9,96,63,608	1,25,78,584	-	11,22,42,192	89,26,373	-	-	2,58,38,570	2,21,86,359
<b>Total</b>	<b>9,96,63,608</b>	<b>1,25,78,584</b>	<b>-</b>	<b>11,22,42,192</b>	<b>89,26,373</b>	<b>-</b>	<b>-</b>	<b>2,58,38,570</b>	<b>2,21,86,359</b>
Previous year	8,78,07,515	1,18,56,093	-	9,96,63,608	1,66,84,605	-	-	2,21,86,359	-

### 2.12 Intangible assets under development

Description	As at 1 April 2015	Additions	Capitalised during the year	As at 31 March 2016
Software development	19,79,552	42,51,354	1,57,354	60,73,552
<b>Total</b>	<b>19,79,552</b>	<b>42,51,354</b>	<b>1,57,354</b>	<b>60,73,552</b>
Previous year	14,61,500	19,79,552	14,61,500	19,79,552



**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016	As at 31 March 2015
<b>2.13 Non current investments</b>		
<i>(Valued at cost unless stated otherwise)</i>		
<b>Other than trade investments (Quoted)</b>		
<b>Investment in equity instruments</b>		
96 Equity shares of Muthoot Finance Limited of Rs.10 each fully paid up (Previous year : 96 Equity shares)	16,800	16,800
1,726 Equity shares of L&T Finance Holdings Limited of Rs.10 each fully paid up (Previous year : 1,726 Equity shares)	89,752	89,752
<b>Total</b>	<b>1,06,552</b>	<b>1,06,552</b>
<b>Quoted non-current investments</b>		
Aggregate book value	1,06,552	1,06,552
Aggregate market value	1,27,365	1,27,962
<b>2.14 Long-term loans and advances</b>		
<b>Secured, considered good</b>		
- Loan portfolio [refer note 2.29 (b) and 2.46 (c)]	16,06,00,26,864	14,13,88,88,972
<b>Unsecured, considered good</b>		
Loan portfolio [refer note 2.29 (b) and 2.46 (c)]	46,82,856	34,00,000
Capital advances	2,01,19,504	3,42,962
Security deposits	4,46,70,752	4,24,20,020
Advance income tax (net of provision for tax)	1,98,90,104	14,98,571
Other loans and advances		
- Prepaid expenses	6,44,58,906	8,34,05,447
	<b>16,21,38,48,986</b>	<b>14,26,99,55,972</b>
<b>2.15 Other Non-current assets</b>		
<i>(Unsecured considered good unless otherwise stated)</i>		
Bank deposits (due to mature after 12 months from the reporting date)	10,35,731	8,75,368
	<b>10,35,731</b>	<b>8,75,368</b>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	As at 31 March 2016	As at 31 March 2015
<b>2.16 Current investments</b>		
<i>(Carried at lower of cost and market value)</i>		
<b>Current portion of long term investments</b>		
Investments in debt securities-Quoted (Refer note 2.32)	-	90,70,101
	-	90,70,101
<b>Quoted current investments</b>		
Aggregate book value	-	90,70,101
Aggregate market value	-	97,40,601
<b>2.17 Cash and bank balances</b>		
<b>Cash and cash equivalents</b>		
Cash on hand	2,67,281	24,315
Balance with banks		
- on current accounts	73,32,34,928	17,69,91,481
Other bank balances		
- Bank deposits with less than 12 months maturity*	9,70,108	5,08,88,704
	<b>73,44,72,317</b>	<b>22,79,04,500</b>
*Includes of Rs 500,000 (Previous Year: Rs 500,000) lien marked with Government authority)		
<b>Details of bank balances</b>		
Current account balances with bank	73,32,34,928	17,69,91,481
Bank deposits due to mature within 12 months of the reporting date included under 'other bank balances'	9,70,108	5,08,88,704
Bank deposits due to mature after 12 months of the reporting date	10,35,731	8,75,368
	<b>73,52,40,767</b>	<b>22,87,55,553</b>
<b>2.18 Short term loan and advances</b>		
<b>Loans and advances to related parties</b>		
<i>(Unsecured, considered good)</i>		
Other advances	4,64,444	1,56,13,584
Inter corporate deposits [refer note 2.35 (e)]	35,00,00,000	-
<b>To parties other than related parties</b>		
<i>(Secured, considered good)</i>		
Loan portfolio [refer note 2.29 (b) and 2.46 (c)]	6,26,47,27,323	6,56,76,78,913
<i>(Unsecured, considered good)</i>		
Loan portfolio [refer note 2.29 (b) and 2.46 (c)]	55,11,153	54,41,377
Other advances	96,38,031	58,30,798
Service tax receivable	2,83,07,155	3,42,05,690
Prepaid expenses	6,92,98,762	14,39,00,222
Staff advance	22,41,813	18,39,212
	<b>6,73,01,88,681</b>	<b>6,77,45,09,796</b>
<b>2.19 Other current assets</b>		
<i>(Unsecured considered good unless otherwise stated)</i>		
<b>Interest accrued</b>		
- on loan portfolio	1,07,96,29,290	94,03,33,288
- on debt securities	6,72,059	10,51,324
- on bank deposits	-	47,73,087
	<b>1,08,03,01,349</b>	<b>94,61,57,699</b>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (Continued)**

(All amounts in Indian rupees, except share data and where otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>2.20 Revenue from operations</b>		
<b>Interest income</b>		
- on loan portfolio (refer note 2.29 a)	3,31,90,64,106	3,41,60,26,204
- on investments	55,110	20,67,110
- on fixed deposits with banks	5,47,367	48,27,358
- on Inter corporate deposit	94,86,985	34,58,221
<b>Other financial services</b>		
- Fee income	19,12,12,225	14,53,32,223
<b>Other operating income</b>		
- Profit on sale of debt securities (net)	-	10,51,565
- Profit/ loss on derivative instruments (net)	-	70,25,158
	<b>3,52,03,65,793</b>	<b>3,57,97,87,839</b>
<b>2.21 Operating expenses</b>		
Direct selling agent commission	3,82,88,787	13,41,19,123
Business facilitation charges	3,10,54,698	3,20,56,983
Postage and communication	1,45,67,796	1,27,08,997
Contingent provisions against standard assets (Refer Note 2.29.c)	1,44,27,735	1,02,12,123
Non performing assets provision (Refer Note 2.29.c)	7,25,97,606	15,76,353
Printing and stationery	1,21,73,575	88,36,037
	<b>18,31,10,197</b>	<b>19,95,09,616</b>
<b>2.22 Employee benefits</b>		
Salaries, wages and bonus	38,13,78,328	33,40,19,387
Contribution to provident fund and other fund (Refer Note 2.44)	1,78,97,416	1,53,75,057
Staff welfare expenses	55,08,661	56,19,382
	<b>40,47,84,405</b>	<b>35,50,13,826</b>
<b>2.23 Finance costs</b>		
Interest expenses	2,23,14,96,408	1,95,75,80,481
Interest expense on non-convertible debentures	3,16,39,298	3,98,25,357
Other borrowing cost	7,50,12,946	9,59,12,014
	<b>2,33,81,48,652</b>	<b>2,09,33,17,852</b>
<b>2.24 Depreciation and amortisation</b>		
Depreciation of tangible fixed assets	1,73,94,253	1,92,55,899
Amortisation of intangible fixed assets	89,26,373	1,66,84,605
	<b>2,63,20,626</b>	<b>3,59,40,504</b>
<b>2.25 Other expenses</b>		
Rent (Refer note. 2.30)	5,41,14,756	4,88,93,816
Legal and professional charges	13,96,06,328	9,09,07,087
Profit/ loss on derivative instruments (net)	77,94,926	-
Auditor remuneration (Refer note 2.27)	47,76,231	35,30,216
Office maintenance	3,47,66,803	2,88,85,233
Rates and taxes	3,47,94,624	3,46,05,269
Business promotion expenses /lead generation	3,38,95,069	2,66,34,439
Repairs and maintenance	1,72,06,572	2,49,75,092
Travelling and conveyance	2,55,43,590	1,76,21,699
Electricity charges	1,02,75,706	87,14,496
Business Support service	1,05,00,000	1,70,00,000
Insurance	32,41,800	46,63,176
Miscellaneous expenses	1,06,10,328	15,30,227
	<b>38,71,26,733</b>	<b>30,79,60,750</b>

## KARVY FINANCIAL SERVICES LIMITED

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

(All amounts in Indian rupees, except share data and unless otherwise stated)

#### 2.26 Capital commitments and contingent liabilities (to the extent not provided for)

Particulars	As at 31 March 2016	As at 31 March 2015
<b>Capital commitment:</b> Estimated amount of contracts remaining to be executed on capital account and not provided for [net of capital advances of Rs. Nil (previous year:Rs.150,000)]	154,300	150,000
<b>Contingent liabilities</b> (refer note below)	-	-

Note: The Company has reviewed all its pending litigations including legal proceedings initiated in the ordinary course of business. The Company does not expect the outcome of these proceedings to have a material and adverse effect on its financial position and accordingly no adjustment in respect thereof is expected.

#### 2.27 Auditors' remuneration (excluding service tax):

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
Audit Fee	3,800,000	2,750,000
Other Services	800,000	656,750
Out of pocket expenses	176,231	123,466
<b>Total</b>	<b>4,776,231</b>	<b>3,530,216</b>

#### 2.28 Segmental Reporting

##### a) Business segment:

The company is engaged in secured lending business. Accordingly there is no reportable segment to be disclosed as required by Accounting Standard 17 'Segment Reporting'.

##### b) Geographical segment:

During the year under report, the Company has engaged in its business primarily within India. The conditions prevailing in India being uniform, no separate geographical disclosure is considered necessary.

#### 2.29 Interest Income on portfolio, Standard asset provision and non-performing asset provision

- a) Interest income on loan portfolio is net of Rs 331,468,606 (previous year Rs.: Nil) pertaining to reversal of unrealised interest income on assets recognised as sub-standard as at 31<sup>st</sup> March 2016.

##### a) Provision as at

Asset classification	31 March 2016		31 March 2015	
	Loan portfolio	Provision	Loan portfolio	Provision
Standard asset	21,632,635,027	66,190,272	20,705,014,813	51,762,537
Sub standard asset	702,313,169	76,718,651	10,394,449	4,121,045
<b>Total</b>	<b>22,334,948,196</b>	<b>142,908,923</b>	<b>20,715,409,262</b>	<b>55,883,582</b>

##### b) Movement in provision during the year is given below:

Particulars	Standard asset provision	Sub standard asset provision	Total
Balance as at 1 April 2015	51,762,537	4,121,045	55,883,582
Additions during the year	14,427,735	72,597,606	87,025,341
Balance as at 31 March 2016	66,190,272	76,718,651	142,908,923

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.30 Operating Leases**

The Company has both cancellable and non-cancellable operating leases. Lease payments relating to non cancellable operating leases amounting to Rs. 23,259,142 (previous year Rs. 21,085,944) and cancellable operating lease amounting to Rs. 30,855,614 (previous year Rs. 27,807,872) has been charged to the Statement of profit and loss.

The total future minimum lease payments under non-cancellable leases are as follows:

Particulars	As at 31 March, 2016	As at 31 March, 2015
Due within one year	15,739,113	22,167,757
Due between one to five years	31,528,308	13,601,542
Later than five years	-	-
<b>Total</b>	<b>47,267,421</b>	<b>35,769,299</b>

**2.31 Deferred tax, net**

The deferred tax asset, net as at the year-end comprises of:

Particulars	As at 31 March, 2016	As at 31 March, 2015
<b>Deferred tax assets</b>		
- Employee benefits	5,135,501	4,344,158
- Provision for outstanding loan portfolio	49,417,905	18,932,491
- Excess of depreciation provided in accounts over depreciation allowable under income-tax law	1,830,717	985,557
<b>Total</b>	<b>56,384,123</b>	<b>24,262,206</b>
<b>Deferred tax liability</b>	-	-
<b>Total</b>	-	-
<b>Deferred tax asset, net</b>	<b>56,384,123</b>	<b>24,262,206</b>

**2.32 Current investments-debt securities**

Name of the scrip	As at 31 March, 2016		As at 31 March, 2015	
	Numbers	Amount	Numbers	Amount
<b>Value of Investment in India:</b>				
7.45% SBI 2015	-	-	9	9,070,101
<b>Gross Value of Investment</b>	-	-	<b>9</b>	<b>9,070,101</b>
Less: Provision for diminution in value	-	-	-	-
<b>Net Value of Investment</b>	-	-	<b>9</b>	<b>9,070,101</b>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.33 Expenditure in foreign currency**

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
Business promotion	-	942,451
Professional fees	1,026,070	491,240
AMC Charges	-	175,882
<b>Total</b>	<b>1,026,070</b>	<b>1,609,573</b>

**2.34 Earnings per share (EPS)**

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>Earnings</b>		
Profit after tax as	116,008,137	386,044,966
Less: Dividend on preference shares and Dividend distribution tax thereon	19,307,373	137,493,314
Net profit attributable to equity shareholders for calculation of basic EPS	96,700,764	248,551,652
Add: Dividend on preference shares and Dividend distribution tax thereon	19,307,373	137,493,314
Add: interest on convertible short term loan instrument	28,109,589	-
Net profit adjusted for the effects of dilutive potential equity shares for calculation of diluted EPS	144,117,726	386,044,966
<b>Shares</b>		
Number of shares at the beginning of the year	61,000,000	41,000,000
Add: weighted average number of equity shares (Rights issue)	3,100,068	-
Add: weighted average number of equity shares (conversion of CCCPS issue and convertible short term loan)	7,687,500	8,750,000
Weighted average number of equity shares outstanding during the period for calculation of basic EPS	71,787,568	49,750,000
Effect of dilutive potential equity shares (CCPS and convertible loan instrument)	5,937,500	10,000,000
Weighted average number of equity shares for calculation of diluted EPS	77,725,068	59,750,000
Earnings per share – basic	1.35	5.00
Earnings per share – diluted*	1.35	5.00

\* 11% Compulsory Cumulative Convertible Preference Shares and the convertible short term loan have not been considered for calculating diluted earnings per share, as they are anti-dilutive in nature.

## KARVY FINANCIAL SERVICES LIMITED

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

(All amounts in Indian rupees, except share data and where otherwise stated)

#### 2.35 Related party disclosures

Name of the party	Nature of relationship
Karvy Stock Broking Limited	Holding Company
Mr. Amit Saxena*	CEO and Managing director
Mr. Abhishek Baxi*	Chief Financial Officer (with effect from 25 <sup>th</sup> March 2015)
Mr. Sunil Samdani	Chief Financial Officer (till 10 <sup>th</sup> March 2015)
Ms. Meenal Talesara	Company Secretary
Karvy Comtrade Limited	Fellow subsidiary and shareholder
Karvy Investor Services Limited	Fellow subsidiary
Karvy Capital Limited	Fellow subsidiary
Karvy Realty (India) Limited	Fellow subsidiary and shareholder
Karvy Holdings Limited	Fellow subsidiary and shareholder
Karvy Consultants Limited	Enterprises where KMP exercise significant Influence
Karvy Computershare Private Limited	Enterprises where KMP exercise significant Influence

(Related parties identified includes related parties as per section 2(76) of the Companies Act, 2013.)

\*Subsequent to the balance sheet date, the office of Chief Financial Officer and the Chief Executive Officer & Managing director has been vacated. The management is in the process of filling up the vacancies as required by the provisions of Section 203 of the Act read with Rule 8 of Companies Appointment and Managerial Personnel Rules 2014.



**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.35 Related party disclosures (Continued)**
**a) Related party transactions and balances:**

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>i. Inter corporate deposit given/ Repaid</b>		
Karvy Consultants Limited	100,000,000	-
Karvy Stock Broking Limited	400,000,000	236,500,000
Karvy Investor Services Limited	-	59,200,000
<b>ii. Inter corporate deposit taken/ refunded</b>		
Karvy Consultants Limited	-	50,000,000
Karvy Stock Broking Limited	150,000,000	-
<b>iii. Conversion of CCCPS into equity shares</b>		
Karvy Holdings Limited	500,000,000	250,000,000
Karvy Reality (India) Limited	-	750,000,000
<b>iv. Reimbursement of expenses/ others (net)*</b>		
Karvy Comtrade Limited	-	290,002
Karvy Computershare Private Limited	467,429	102,000
Karvy Stock Broking Limited	24,399,519	142,027,235
Karvy Capital Limited	7,179,206	-
<b>v. Interest income on ICD</b>		
Karvy Consultants Limited	8,395,890	3,458,221
Karvy Stock Broking Limited	1,091,096	-
<b>vi. Interest expense on ICD</b>		
Karvy Stock Broking Limited	-	9,023,178
Karvy Investor Services Limited	-	7,948,206
<b>vii. Short-term loan taken</b>		
Karvy Stock Broking Limited	250,125,000	-
<b>viii. Conversion of short-term loan availed into Equity shares</b>		
Karvy Stock Broking Limited	250,125,000	-
<b>ix. Brokerage paid**</b>		
Karvy Comtrade Limited	-	1,760
Karvy Stock Broking Limited	30,424	781,271
<b>x. Loan syndication fee paid</b>		
Karvy Holdings Limited	-	25,000,000
<b>xi. Dividend paid</b>		
Karvy Comtrade Limited	-	33,000,000
Karvy Holdings Limited	16,041,667	104,208,333
Karvy Stock Broking Limited	-	81,000,000
Karvy Reality (India) Limited	-	79,375,000
<b>xii. Corporate guarantee commission paid**</b>		
Karvy Stock Broking Limited	-	33,000,000
<b>xiii. Other advisory fees</b>		
Karvy Stock Broking Limited	-	7,741,523
<b>xiv. Debenture issue expenses</b>		
Karvy Stock Broking Limited	-	9,000,000
<b>xv. Right issue of equity shares</b>		
Karvy Reality (India) Limited	250,125,000	-

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.35 Related party disclosures (Continued)**
**b) Related party balances:**

Particulars	As at 31 March 2016	As at 31 March 2015
<b>i. Other advances</b>		
Karvy Comtrade Limited	214,604	205,514
Karvy Stock Broking Limited	392,190	15,541,330
<b>ii. Trade payable/ (receivable)</b>		
Karvy Computershare Private Limited	510,109	123,202
Karvy Holdings Limited	1,234,305	1,234,305
Karvy Stock Broking Limited	25,753,646	-
<b>iii. Security deposits</b>		
Karvy Consultants Limited	500,000	500,000
<b>iv. Inter Corporate Deposit Given</b>		
Karvy Consultants Limited	100,000,000	-
Karvy Stock Broking Limited	250,000,000	-

**c) Related party transactions and balances with Key Managerial Personnel (refer note 2.58)**

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
<b>Managerial remuneration</b>		
CEO and Managing director	30,378,066	26,106,479
Chief Financial Officer	5,821,619	5,709,941
Other parties	826,738	709,180

The managerial personnel are covered by the Company's gratuity policy and are eligible for compensated absences along with other employees of the Company. The proportionate amount of gratuity and compensated absences cost pertaining to managerial remuneration have not been included in the aforementioned disclosures as these are not determined on individual basis.

**d) Karvy Stock Broking Limited, the holding company has given corporate guarantee for the term loans, cash credit facilities and working capital demand loans availed by the Company from the banks. (Refer note 2.39 and 2.40).**

\* Reimbursement of expenses includes cost shared towards salaries, infrastructure cost with the holding Company.

\*\* Includes brokerage paid on behalf of Clients.

**e) Detail of movement of inter corporate deposits given:**

Particulars	Karvy Stock Broking Limited	Karvy Consultants Limited
As at the beginning of the year	-	-
Given during the year	400,000,000	100,000,000
Received during the year	(150,000,000)	-
As at the end of the year	250,000,000	100,000,000

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.36 Commercial paper**

a) The Company issued commercial papers at a face value of Rs. 500,000 per unit. Balance outstanding as at 31 March 2016 is as given below:

Sl. No.	Issue Date	Maturity Date	Tenor (in days)	Amount	Unamortized Interest Cost	Outstanding balance
1	18-Feb-16	21-Apr-16	63	50,000,000	328,667	49,671,333
2	18-Feb-16	21-Apr-16	63	10,000,000	65,733	9,934,267
3	26-Feb-16	29-Apr-16	63	100,000,000	920,267	99,079,733
4	9-Mar-16	11-May-16	63	250,000,000	3,220,952	246,779,048
5	10-Mar-16	12-May-16	63	250,000,000	3,301,476	246,698,524
6	15-Mar-16	17-May-16	63	250,000,000	3,704,095	246,295,905
7	16-Mar-16	18-May-16	63	250,000,000	3,784,619	246,215,381
8	9-Mar-16	31-May-16	83	100,000,000	1,959,108	98,040,892
9	21-Jan-16	14-Oct-16	267	100,000,000	5,581,742	94,418,258
<b>Total</b>				<b>1,360,000,000</b>	<b>22,866,659</b>	<b>1,337,133,341</b>

The above commercial papers carry interest rates ranging from 11.25% to 12.25% per annum.

b) The Company issued commercial papers at a face value of Rs. 500,000 per Unit. Balance outstanding as at 31 March 2015 is as given below:

Sl. No.	Issue Date	Maturity Date	Tenor (in days)	Amount	Unamortized Interest Cost	Outstanding balance
1	30-Mar-15	29-Mar-16	365	100,000,000	9,855,599	90,144,401
2	27-Mar-15	29-Dec-15	277	250,000,000	21,036,548	228,963,452
3	10-Dec-14	9-Dec-15	364	250,000,000	17,109,343	232,890,657
4	24-Sep-14	24-Sep-15	365	250,000,000	12,190,286	237,809,714
5	25-Mar-15	23-Jun-15	90	250,000,000	4,986,141	245,013,859
6	27-Mar-15	2-Jun-15	67	250,000,000	6,893,611	243,106,389
7	24-Mar-15	26-May-15	63	400,000,000	7,086,095	392,913,905
8	22-Aug-14	19-May-15	270	250,000,000	3,692,751	246,307,249
9	10-Mar-15	8-May-15	59	100,000,000	1,178,669	98,821,331
10	3-Sep-14	17-Apr-15	226	150,000,000	723,055	149,276,945
11	13-Feb-15	17-Apr-15	63	250,000,000	1,272,569	248,727,431
<b>Total</b>				<b>2,500,000,000</b>	<b>86,024,667</b>	<b>2,413,975,333</b>

The above commercial papers carry interest rates ranging from 11.00% to 12.50% per annum.

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.37 Terms of secured redeemable non convertible debentures**
**A Break up of secured debentures**

Sl.No.	Series of issue	Date of allotment	Date of redemption	As at 31 March 2016	As at 31 March 2016
1	B43 - Type I	6-Jan-15	29-Jun-18	12,000,000	12,000,000
2	B45 - Type II	10-Feb-15	5-Jun-18	17,000,000	17,000,000
3	B32	6-Mar-13	30-Jun-16	12,000,000	12,000,000
4	B47	31-Mar-15	27-Jun-16	69,000,000	69,000,000
5	B46	12-Mar-15	3-Jun-16	13,000,000	13,000,000
6	B45 - Type I	10-Feb-15	5-May-16	13,000,000	13,000,000
7	B44	22-Jan-15	13-Apr-16	24,000,000	24,000,000
8	B36	17-Jan-14	11-Apr-16	9,000,000	9,000,000
9	B41	20-Nov-14	11-Apr-16	39,000,000	39,000,000
10	B29	10-Dec-12	30-Mar-16	-	7,000,000
11	B43 - Type II	6-Jan-15	29-Mar-16	-	20,000,000
12	B42	28-Nov-14	21-Feb-16	-	10,000,000
13	B40	5-Nov-14	28-Jan-16	-	12,000,000
14	B39	21-Oct-14	14-Jan-16	-	37,000,000
15	B28	2-Nov-12	30-Dec-15	-	10,700,000
16	B38	25-Sep-14	16-Dec-15	-	12,000,000
17	B21	27-Jul-12	30-Nov-15	-	19,500,000
18	B22	25-Jun-12	12-Oct-15	-	10,700,000
19	B37	12-Mar-14	3-Jun-15	-	9,000,000
<b>Total</b>				<b>208,000,000</b>	<b>355,900,000</b>

- It includes current maturities of secured redeemable non-convertible debentures amounting to Rs. 179,000,000 (previous year Rs. 147,900,000) grouped under other current liabilities (Refer note 2.8)
- The Coupon (interest) on debentures are based on the movement of gold price and S&P CNX Nifty Index as the underlying reference asset price.
- The debentures along with coupon (interest) are secured by way of floating charge on the loan against share portfolio of the Company, ranking pari passu amongst the debenture Holders along with other lenders

**B. Unsecured redeemable non-convertible debentures**

In the previous year, the Company had issued 15.60% 300 unsecured redeemable non-convertible debentures of Rs. 1,000,000 each amounting to Rs. 3,00,000,000 redeemable by 11 May 2020.

**KARVY FINANCIAL SERVICES LIMITED**

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

**2.38 Terms of the long term secured borrowings from banks and others**

a) Terms of the long term secured borrowings from banks as at 31 March 2016:

Nature of Facility	Amount Outstanding		Interest rates range	Terms of repayment
	Current	Non-current		
Term Loan  (Secured by first pari passu charge on standard assets portfolio of receivables excluding receivables pertaining to capital market exposure)	200,000,000	550,000,000	Base Rate +1.00% to 2.85%	20 Quarterly installments
	166,800,000	331,889,346		6 Half-yearly installments
	165,913,798	-		6 Half-yearly installments
	166,666,666	249,848,593		6 Half-yearly installments
	125,000,000	375,000,000		4 Half-yearly installments
	-	500,000,000		6 Half-yearly installments
	375,000,000	562,216,911		16 Quarterly installments
	250,000,000	687,000,050		16 Quarterly installments
	-	499,839,124		16 Quarterly installments
	54,545,455	145,454,545		11 Quarterly installments
	64,285,714	85,714,286		7 Quarterly installments
	50,000,000	350,000,000		24 Quarterly installments
	62,500,000	437,374,137		8 Half-yearly installments
	250,000,000	624,818,243		8 Half-yearly installments
	20,833,334	229,166,666		12 Quarterly installment
Term Loan  (Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold.)	42,900,000	257,100,000	7 Half-yearly installments	
	46,158,419	-	13 Quarterly installments	
	124,630,196	-	7 Half-yearly installments	
	124,964,080	-	8 Quarterly installments	
	-	249,883,205	6 Half-yearly installments	
	166,515,020	-	6 Half-yearly installments	
	348,020,460	-	4 Half-yearly installments	
	125,000,000	373,160,038	4 Half-yearly installments	
	-	2,000,000,000	8 Half-yearly installments	
	250,000,000	249,234,077	4 Half-yearly installments	
	125,000,000	250,000,000	16 Quarterly installments	
	250,000,000	124,563,492	4 Half-yearly installments	
	31,250,000	468,618,020	16 Quarterly installments	
83,333,332	83,333,336	12 Quarterly installments		
61,538,460	138,461,540	13 Quarterly installments		
Term Loan (Secured by first pari passu charge on the receivables pertaining to loan against property and loan against gold)	166,033,042	-	12 Quarterly installments	
Term Loan (Secured by hypothecation charge on eligible loan receivables other than the loan against commodity and loan against shares etc. on pari passu basis {net of advances, financials, charges and NPA})	166,000,000	833,889,949	6 Half-yearly installments	
<b>Total</b>	<b>4,062,887,976</b>	<b>10,656,565,558</b>		

**KARVY FINANCIAL SERVICES LIMITED**

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

**2.38 Terms of the long term secured borrowings from banks and others**
**b) Terms of the long term secured borrowings from banks as at 31 March 2015:**

Nature of Facility	Amount Outstanding		Interest rates range	Terms of repayment
	Current	Non-current		
Term Loan	180,000,000	670,000,000		20 Quarterly installments
	-	499,999,647		6 Half-yearly installments
(Secured by first pari passu charge on standard assets portfolio of receivables)	166,600,000	166,011,153		6 Half-yearly installments
	83,333,333	416,654,114		6 Half-yearly installments
	250,000,000	-		4 Half-yearly installments
	-	500,000,000		4 Half-yearly installments
	375,000,000	937,460,399		16 Quarterly installments
	62,500,000	937,162,290		16 Quarterly installments
	125,000,000	875,062,512		8 Half-yearly installments
Term Loan	166,400,000	-		6 Half-yearly installments
	92,307,700	46,153,835		13 Quarterly installments
(Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold)	150,000,000	124,593,566	Base Rate	7 Half-yearly installments
	125,000,000	124,998,231	+1.00%	8 Quarterly installments
		249,931,302	to	6 Half-yearly installments
	166,666,000	166,663,135	2.85%	6 Half-yearly installments
	350,000,000	349,752,575		4 Half-yearly installments
	-	499,823,268		4 Half-yearly installments
	600,000,000	-		5 Half-yearly installments
	-	499,970,202		4 Half-yearly installments
	125,000,000	375,000,000		16 Quarterly installments
	125,000,000	374,810,891		4 Half-yearly installments
	49,835,038	-		10 Quarterly installments
	83,333,333	166,665,679		12 Quarterly installments
Term Loan (Secured by first pari passu charge on the receivables pertaining to loan against property and loan against gold)	333,333,336	166,084,807		12 Quarterly installments
<b>Total</b>	<b>3,609,308,740</b>	<b>8,146,797,606</b>		

(Note: Above mentioned borrowings from banks are secured by corporate guarantee issued by the holding company)

**KARVY FINANCIAL SERVICES LIMITED**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

**2.38 Terms of the long term secured borrowings from banks and others**
**c) Terms of the long term secured borrowings from others:**

Nature of Facility	As at 31 March 2016		As at 31 March 2015		Terms of Repayment
	Current	Non-current	Current	Non-current	
Term Loan (Secured by first pari passu charge on standard assets portfolio of receivables excluding receivables pertaining to capital market exposure)	45,000,000	255,000,000	-	-	20 Quarterly installments Carries an interest of Prime lending rate - 0.6% i.e. 11.35%
<b>Total</b>	<b>45,000,000</b>	<b>255,000,000</b>	<b>-</b>	<b>-</b>	

**2.39 Terms of the secured cash credits and working capital demand loan from banks (Included in Short term borrowings)**
**a) As at 31 March 2016:**

Nature of facility	Amount Outstanding	Interest rates	Terms of repayment
	Current		
Cash Credit (Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold)	495,568,037 494,522,407 44,322,133 98,080,317	BR+	Repayable on demand
Cash Credit (Secured by hypothecation of the specific current assets including loan receivables and other current assets and excluding the current assets not eligible to be financed under RBI guidelines)	497,328,470	1.00% to 2.50%	
<b>Total</b>	<b>1,629,821,364</b>		
Working Capital Demand Loan (Secured by hypothecation of the specific current assets including loan receivables and other current assets and excluding the current assets not eligible to be financed under RBI guidelines)	#300,000,000	10.95% to 12.00%	Repayable on demand
Working Capital Demand Loan (Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold)	300,000,000		
<b>Total</b>	<b>600,000,000</b>		

# corporate guarantee not provided



**KARVY FINANCIAL SERVICES LIMITED**

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

**2.39 Terms of the secured cash credits and working capital demand loan from banks** (Included in Short term borrowings)

**a) As at 31 March 2015:**

Nature of facility	Amount Outstanding	Interest rates	Terms of repayment
	Current		
Cash Credit (Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold)	406,793,743 470,803,856 238,749,537	BR+	Repayable on demand
Cash Credit (Secured by hypothecation of the specific current assets including loan receivables and other current assets and excluding the current assets not eligible to be financed under RBI guidelines)	439,740,147	1.00% to 2.50%	
<b>Total</b>	<b>1,556,087,283</b>		
Working Capital Demand Loan (Secured by hypothecation of the specific current assets including loan receivables and other current assets and excluding the current assets not eligible to be financed under RBI guidelines)	300,000,000	11.00% to 12.25%	Repayable on demand
Working Capital Demand Loan (Secured by first pari passu charge on the standard assets portfolio receivables pertaining to loan against commodities, loan against property and loan against gold)	250,000,000		
<b>Total</b>	<b>550,000,000</b>		

(Note: Above mentioned borrowings from banks are secured by corporate guarantee issued by the holding company.)

**2.40 Terms of the Long term unsecured borrowings from banks**

Current maturity of long term unsecured borrowing from bank under other current liabilities head includes Rs. 250,000,000 (previous year: Rs. 250,000,000) is secured by fixed deposit made by Karvy Stock Broking Limited, Holding Company. The loan will be repaid in a single bullet payment by 31 March 2017 at an interest rate of 10.00% p.a.

Current maturity of long term unsecured borrowing from bank under 'other current liabilities' includes Nil (previous year: Rs. 224,989,597), which was secured by corporate guarantee issued by Karvy Stock Broking Limited, Holding Company. The loan carried at an interest rate of 13.10% p.a. i.e. Base Rate + 2% p.a. and was repaid during the year

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.41 Terms of the unsecured borrowings from other parties**
**a) For the year ended 31 March 2016:**

Nature of facility	Amount Outstanding		Interest rates	Terms of repayment
	Short term	Long term		
Line of credit against shares	96,067	-	10.25%	Repayable on demand
	209,000,000	-	to	Repayable by 20 March 2017
	90,800,000	-	12.50%	Repayable on demand
	-	122,000,000		Repayable within 2 years
	-	16,020,965		Repayable within 5 years
<b>Total</b>	<b>299,896,067</b>	<b>138,020,965</b>		

**b) For the year ended 31 March 2015:**

Nature of facility	Amount Outstanding		Interest rates	Terms of repayment
	Short term	Long term		
Line of credit against shares	65,900,000	-	12.25%	Repayable on demand
	131,000,000	-	to	
	132,500,001	-	13.00%	
	-	107,800,000		Repayable within 5 years
<b>Total</b>	<b>329,400,001</b>	<b>107,800,000</b>		

**2.42 Terms of Inter Corporate Deposits (ICD) (unsecured)**
**a) For the year ended 31 March 2015:**

ICD taken from	As at 31 March 2016	As at 31 March 2015	Repayable by	Interest Rates (p.a.)
Financial Institution	100,000,000	-	30 Apr 2016	12%
<b>Total</b>	<b>100,000,000</b>	<b>-</b>		

## KARVY FINANCIAL SERVICES LIMITED

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

(All amounts in Indian rupees, except share data and where otherwise stated)

#### 2.43 Micro, small and medium enterprises :

The Management has identified enterprises which have provided goods and services to the Company and which qualify under the definition of micro and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2016 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the Act is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
The amount remaining unpaid to micro and small suppliers at the end of the year	-	-
- Principal		
- Interest		
The amount of interest paid by the buyer as per the MSMED Act, 2006;	-	-
The amount of the payment made to micro and small suppliers beyond the appointed day during each accounting year;	-	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under MSMED Act, 2006; and	-	-
The amount of interest accrued and remaining unpaid at the end of each accounting year	-	-
The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises for the purposes of disallowances as a deductible expenditure under the MSMED Act, 2006.	-	-

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.44 Defined benefit plans**

**Gratuity:** The Company makes annual contribution to a gratuity fund administered by trustees and managed by Canara HSBC Oriental Bank of Commerce Life Insurance Co Limited. Every employee is entitled to a benefit equivalent to fifteen days salary last drawn for each completed year of service in line with the payment of Gratuity Act, 1972. The same is payable at the time of separation from the Company or retirement, whichever is earlier.

Gratuity liability	For the year ended 31 March 2016	For the year ended 31 March 2015	For the year ended 31 March 2014	For the year ended 31 March 2013	For the year ended 31 March 2012
<b>Opening defined benefit obligation</b>	<b>6,266,131</b>	<b>4,398,261</b>	<b>3,485,820</b>	<b>1,692,353</b>	<b>757,356</b>
Current service cost	2,099,367	1,695,093	1,253,283	1,253,914	709,937
Interest cost	488,758	395,843	278,866	143,850	60,588
Actuarial (losses) / gain	(292,147)	203,147	(619,708)	395,703	394,785
Benefits paid	(1,072,494)	(426,313)	-	-	(230,313)
<b>Closing defined benefit obligation</b>	<b>7,489,615</b>	<b>6,266,131</b>	<b>4,398,261</b>	<b>3,485,820</b>	<b>1,692,353</b>

<b>Movement in fair value of planned assets</b>					
Fair value of plan asset at the beginning of year	582,453	532,274	5,30,000	-	-
Difference in opening balance	-	-	2,274	-	-
Contributions paid into the plan	-	-	-	500,000	-
Expected return on plan assets	54,003	50,179	-	30,000	-
Benefits paid	-	-	-	-	-
Actuarial (loss) / gain and others	-	-	-	-	-
<b>Fair value of plan assets at the end of the year</b>	<b>636,456</b>	<b>582,453</b>	<b>532,274</b>	<b>530,000</b>	<b>-</b>

<b>Expenses recognised in the statement of profit and loss</b>					
Current service cost	2,099,367	16,95,093	1,253,283	1,253,914	709,937
Interest cost	488,758	3,95,843	278,866	143,850	60,588
Expected return on plan assets	(54,003)	(50,179)	-	(30,000)	-
Net actuarial gain/ (loss) recognized	(292,147)	203,147	(619,708)	395,703	384,785
<b>Amount included in employee benefit expenses</b>	<b>2,237,427</b>	<b>2,243,904</b>	<b>912,441</b>	<b>1,763,467</b>	<b>1,165,310</b>

<b>Amount recognised in balance sheet</b>					
Present value of obligation as at the end of the year	7,489,615	6,266,131	4,398,261	3,485,820	1,692,353
Fair value of plan assets as at the end of the year	(636,456)	(582,453)	(532,274)	(530,000)	-
<b>Total</b>	<b>6,853,159</b>	<b>5,683,678</b>	<b>3,865,987</b>	<b>2,955,820</b>	<b>1,692,353</b>

<b>Assumptions</b>					
Discount rate	8.00%	7.80%	8.00%	8.00%	8.50%
Salary escalation rate	4.00%	4.00%	4.00%	4.00%	4.00%
Rate of return on plan assets	8.00%	9.42%	9.00%	9.00%	-
Expected average remaining working lives of employees (years)	26 yrs	26 yrs	27 yrs	28 yrs	28 yrs

**Discount rate:** The discount rate is based on the prevailing market yields of Indian Government Securities as at the balance sheet date for the estimated term of the obligations.

**Salary escalation rate:** The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.44 Defined benefit plans**
**a) Defined contribution plans**

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
Amount recognized in Statement of Profit and Loss towards		
- provident fund	15,159,277	12,655,434
- employee state insurance	342,212	306,169
- labour welfare fund	158,500	169,550
<b>Total</b>	<b>15,659,989</b>	<b>13,131,153</b>

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.45 A. Open interest in Equity index / Commodity futures as at 31 March 2016:**

Sl.No.	Name of future	Series of future	Position	Number of contracts	Number of units involved
1.	Nifty	Nil	Nil	Nil	Nil

**B. Open interest in Equity index / Commodity futures as at 31 March 2015:**

Sl.No.	Name of future	Series of future	Position	Number of contracts	Number of units involved
1.	Nifty	April	Long	156	3900

C. Mark to Market gains (losses) on Equity index / Commodity futures recorded to the statement of profit and loss Rs. (7,794,926) (Previous year: gain of Rs 7,025,158).

**2.46 Disclosure required in terms of the Revised Regulatory Framework for NBFC issued by RBI on 10 November, 2014**
**a) Capital to Risk Asset ratio (CRAR)**

Sl.No.	Particulars	2015-16	2014-15
(i)	CRAR%	17.93%	17.08%
(ii)	CRAR-Tier I Capital %	16.66%	15.47%
(iii)	CRAR-Tier II Capital %	1.27%	1.61%
(iv)	Amount of Subordinated debt raised as per Tier II Capital (Rs. In lakhs)	3,000	3,000
(v)	Amount raised by issue of perpetual debt instrument	-	-

**b) Exposure to Real Estate Sector, both direct and indirect**

(Rs. in Lakhs)

Categories	As at 31 March 2016	As at 31 March 2015
<b>I. Direct Exposure</b>		
i. Residential Mortgages (Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented)	139,763	127,024
ii. Commercial Real Estate (Lending secured by mortgages on commercial real estate (office buildings, retail space, multipurpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits)	38,631	38,109
iii. Investments in Mortgage Backed Securities (MBS) and other securitised exposures.	—	—
a) Residential		
b) Commercial Real Estate		

<b>II. Indirect Exposure</b>		
i. (Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	—	—

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**c) Maturity pattern of certain items of assets and liabilities**

(Rs. in Lakhs)

Particulars 15-16	1 day to 30/ 31 days 1 month	Over 1 month Upto 2 months	Over 2 months Upto 3 months	Over 3 months Upto 6 months	Over 6 months Upto 1 Year	Over 1 Year Upto 3 Years	Over 3 Years Upto 5 Years	Over 5 Years	Total
Borrowings from banks	27,463.90	1,980.77	6,078.83	6,027.26	27,544.18	77,181.58	29,144.75	833.33	176,254.50
Market borrowings	3,320.00	10,130.00	1,970.00	1,328.00	3,690.96	2,270.21	4,200.00	0.00	27,059.17
Advances	20,225.18	3,175.98	3,477.29	8,662.30	27,169.63	43,710.65	27,092.39	89,836.06	223,349.48
Investments					-	1.06			1.06

(Rs. in Lakhs)

Particulars 14-15	1 day to 30/ 31 days 1 month	Over 1 month Upto 2 months	Over 2 months Upto 3 months	Over 3 months Upto 6 months	Over 6 months Upto 1 Year	Over 1 Year Upto 3 Years	Over 3 Years Upto 5 Years	Over 5 Years	Total
Borrowings from banks	10,509.91	3,930.77	4,853.83	11,866.62	35,855.23	60,459.71	21,008.27	-	143,371.83
Market borrowings	3,998.00	7,500.00	5,090.00	3,826.79	9,358.00	1,790.00	1,368.00	3,000.00	35,931.79
Advances	13,673.76	1,209.36	1,753.87	11,592.43	37,503.23	50,978	44,543.30	45,901.25	207,154.09
Investments					90.70	1.06			91.76

**d)** During the year the Company was assigned credit rating by ICRA Limited for below mentioned product:

Rating of products:	2015-16	2014-15
(a) Commercial Paper	A1+(SO)	A1+(SO)
(b) Debentures	PP - MLD A	PP - MLD A
(c) Long Term Bank loans	A1+(SO)	A+(SO)

**e)** As required under circular RBI/2013-14/260/DNBS. CC.PD.No.356/03.10.01/2013-14 dated 16 September 2013 issued by Reserve Bank of India details of gold auction conducted during the year are as under:

Financial Year	Number of loan account auctioned	Outstanding amount	Value fetched	Sister concern participation in auction
2015-16	6,852	352,273,809	361,372,299	None
2014-15	8,058	543,457,006	549,963,527	None



**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**f) Disclosure required in terms of the Revised Regulatory Framework for NBFC issued by RBI on 10 November, 2014**
**Concentration of exposures and non-performing assets (NPA):**

Particulars	As at 31 March 2016	As at 31 March 2015
Total advances to twenty largest borrowers	2,775,238,357	2,656,566,909
Percentage of advances to twenty largest borrowers to total advances	12.43%	12.82%
Total exposure to top four NPA accounts	360,697,409	5,055,665

**g) Exposure to Capital Market**

Particulars	As at 31 March 2016	As at 31 March 2015
Direct investment in equity shares	106,552	106,552
Unsecured advances to stockbroker	392,190	15,541,330
Advances against shares / other securities to individuals for investment in shares	287,029,320	243,537,000

**h) Details of Single Borrower Limit (SGL) / Group Borrower Limit (GBL) exceeded by the NBFC:**

The Company has not exceeded the prudential exposure limits during the financial year ended 31 March 2016 and 31 March 2015.

**i) Registration obtained from other financial sector regulators.**

Sr. No.	Regulator	Registration No.	Date of Registration
1	Ministry of Corporate Affairs	U67190MH2001PLC227379	18-10-2001
2	Pension Fund Regulatory and Development Authority (PFRDA)	04111	07-04-2011

**j) Details of penalties imposed by RBI and other regulators:**

No penalties has been imposed by RBI and other regulators on the Company during the financial year ended 31 March 2016 and 31 March 2015

**k) Disclosures relating to fraud in terms of the notification issued by Reserve Bank of India:**

During the year ended 31 March 2016, the Company has not detected any fraud.

**l) Unsecured Advances**

Particulars	As at 31 March 2016	As at 31 March 2015
Unsecured Advances	10,194,009	8,841,377

m) The Company has not given any unsecured advances against intangible securities such as charge over the rights, licenses, authority, etc. during the financial year ended 31 March 2016 and 31 March 2015

**n) Details of non-performing financial assets purchased / sold:**

The Company has not purchased/sold any non-performing financial assets during the financial year ended 31 March 2016 and 31 March 2015

**o) Disclosures under circular RBI / 2011-12/467/ DNBS. CC.PD.No.265/03.10.01/2011-12 dated 21 March 2012**

Particulars	As at 31 March 2015	As at 31 March 2014
Total Gold loan portfolio	2,667,616,895	2,725,660,214
Total assets	24,921,224,949	22,343,287,441
Gold loan portfolio as a % of total assets	10.70%	12.20%

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.47 Disclosures related to sale/assignment of receivables and securitizations transactions in accordance with the RBI circular no. DBOD.NO.BP.BC.60/21.04.048/2005-06 dated 01 February 2006.**

Particulars	As at 31 March 2016 (Cumulative)	As at 31 March 2015 (Cumulative)
Total number of loans securitized	279	359
Book value of loan securitized	915,675,941	516,101,553
Sale consideration	880,703,531	464,491,397
Gain on securitization (Net of expenses)	-	-
Outstanding credit enhancement	34,972,410	51,610,155
Outstanding liquidity facility	-	-
Net Outstanding Servicing Liability	-	-

During the year, the Company has assigned the loan receivables amounting to Rs 565,951,840 (including Interest receivables) at par. The Company has not maintained the minimum retention ratio of 10% on such assigned loan receivables. In remediation, the Company has maintained capital for securitised assets as if they were not securitised, over and above the capital mandated on its existing exposures.

**2.48** As per Section 135 of the Companies Act 2013, the Company has formed Corporate Social Responsibility ('CSR') committee. The proposed CSR activities are Healthcare (via LEPRAsociety, a National NGO headquartered in Secunderabad) in Telengana which are specified in Schedule VII of the Companies Act, 2013.

Gross amount required to be spent by the Company during the year was Rs. 7,305,426 (PY: Rs, 6,512,776). The Company has provided for the CSR expenditure and is yet to incur the same.

**2.49 Provision and contingency**

Particulars	For the year ended 31 March 2016	For the year ended 31 March 2015
Provision towards NPA	72,597,606	1,576,353
Provision made towards Income tax	96,988,960	212,435,733
Provision for Standard Assets	14,427,735	10,212,123
For closing balances of provision -refer note 2.5 and 2.9		

**2.50 Disclosure with respect to customer complaints**

S.No.	Particulars	Number of complaint as on 31 March 2016	Number of complaint as on 31 March 2015
1	No. of complaints pending at the beginning of the year	11	1
2	No. of complaints received during the year	30	58
3	No. of complaints redressed during the year	18	48
4	No. of complaints pending at the end of the year	23	11

**KARVY FINANCIAL SERVICES LIMITED**
**NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)**

(All amounts in Indian rupees, except share data and where otherwise stated)

**2.51 Sector wise Non-Performing Assets (NPA)**

S.No.	Particulars	Percentage of NPAs to total advances as on 31 March 2016	Percentage of NPAs to total advances as on 31 March 2015
1.	Agriculture & allied activities	0.00%	0.00%
2.	MSME	0.00%	0.00%
3.	Corporate borrowers	0.05%	0.00%
4.	Services	2.29%	0.02%
5.	Unsecured personal loans	0.00%	0.00%
6.	Auto loans	0.00%	0.00%
7.	Other loans	0.80%	0.03%
	<b>Total*</b>	<b>3.14%</b>	<b>0.05%</b>

\*This represents percentage of gross NPAs to gross advances

**2.52 Movement in Non-Performing Asset (NPA)**

Particulars		2015-16	2014-15
i)	Net NPA to net advances percentage	2.81%	0.03%
ii)	Movement of NPAs (Gross)		
	a) Opening balance	10,394,449	25,446,923
	b) Additions during the year	1,340,759,236	136,142,914
	c) Reduction during the year	(648,840,516)	(151,195,388)
	d) Closing balance	702,313,169	10,394,449
iii)	Movement of net NPAs		
	a) Opening balance	6,273,405	22,902,232
	b) Additions during the year	1,203,277,579	121,890,358
	c) Reduction during the year	(583,956,464)	(138,519,185)
	d) Closing balance	625,594,520	6,273,405
iv)	Movement of provisions for NPAs (excluding provisions on standard assets)		
	a) Opening balance	4,121,045	2,544,692
	b) Provisions made during the year	137,481,657	16,967,374
	c) Write off/ write back of excess provisions	(64,884,052)	(15,391,021)
	d) Closing balance	76,718,651	4,121,045

**2.53 Loans and advances given to Companies in which director is interested**

Particulars	Name of the Company	Amount as at 31 <sup>st</sup> March 2016	Amount as at 31 <sup>st</sup> March 2015
Loans given to all companies / firm in which director is interested	Pokarna Limited	-	48,310,075
	Pokarna Engineered Stone Limited	-	48,313,577
For loans and advances given to other such parties- refer note 2.36			

## KARVY FINANCIAL SERVICES LIMITED

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

(All amounts in Indian rupees, except share data and where otherwise stated)

- 2.54** The Board of Directors has authorised the execution of a proposed Business Transfer Agreement to dispose the business of the retail lending division as a going concern and on a slump sale basis, free and clear of all encumbrances for a purchase consideration which would be the book value of fixed assets, current assets, loan receivables (less any provisions), current liabilities and bank loans on the date of sale, post fulfillment of conditions precedent to such date of sale as enlisted therein. The adjustments would be given effect to, in the financial statements, post consummation of the transaction
- 2.55** The Company does not have any un-hedged foreign currency exposure.
- 2.56** The Company has a process, whereby periodically all long-term contracts are assessed for material foreseeable losses. Based on such assessment at the year end, it is noted that no provision is required to be made for any material foreseeable losses as per the applicable regulatory framework.
- 2.57** As per the provisions of Section 197 of Companies Act, 2013 total managerial remuneration to be paid to its Chief Executive Officer (CEO) and Managing director, for the year shall not exceed eleven percent of the net profits without prior approval of Central Government. The Company has paid remuneration to the CEO and Managing director in excess of the prescribed limits. Accordingly, it is in the process of obtaining the necessary approvals from Central Government with respect to such excess remuneration paid.

#### 2.58 Transfer Pricing

The Company has established a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under Section 92-92F of the Income-Tax Act, 1961. The Management is of the opinion that its domestic transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expenses and that of provision for taxation.

#### 2.59 Previous year's figures

Previous year's figures have been regrouped /reclassified, where necessary to confirm to current year's classification.

for **B S R & Associates LLP**

Chartered accountants

ICAI Firm registration no. 116231W/W-100024

Sd/-

**H Selva Thiraviam**

Partner

Membership No. : 200120

Place: Mumbai

Date: 29 July 2016

for **Lalith Prasad and Co**

Chartered accountant

ICAI Firm registration no. 008089S

Sd/-

**S. Lalith Prasad**

Partner

Membership No. 023665

Place: Mumbai

Date: 29 July 2016

for and on behalf of the Board of Directors of

**Karvy Financial Services Limited**

CIN:U67190MH2001PLC227379

Sd/-

**M. Yugandhar**

Director

DIN :00012265

Sd/-

**Jyothi Prasad**

Director

DIN :06947488

Sd/-

**G. Krishna Hari**

Director

DIN :00148721

Place: Mumbai

Date: 29 July 2016

Sd/-

**B.D. Narang**

Director

DIN :00038052

Sd/-

**V Mahesh**

Director

DIN:00800219

Sd/-

**Meenal Talesara**

Company Secretary

M.No.A22658